SURVEY OF BRITISH COMMONWEALTH AFFAIRS

SURVEY OF BRITISH COMMONWEALTH AFFAIRS

VOLUME II

PROBLEMS OF ECONOMIC POLICY 1918—1939

PART 1

BY

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TO

THE MEMORY OF AN AUSTRALIAN

CHARLES ALLAN SEYMOUR HAWKER

SCHOLAR, SOLDIER, FARMER

STATESMAN

PREFACE

THE work now published was written in 1937 and 1938, and the greater part of it was revised for the press before the outbreak of war in September 1939. Here and there I have found it convenient to insert a sentence or a paragraph which gives completeness to some particular inquiry by continuing it to the very end of the twenty-one years of peace. But I have resisted the temptation to undertake a new revision. War quickly changes the perspective in which we see our problems, and—to take one example—it is improbable that I could to-day discuss the *Economics of Siege* exactly as I discussed them in 1937–8. It is for this very reason that I have sent my chapters to the press substantially as they stood six months ago. For it is not only the experience of the period 1918–39, but the point of view of the men who were trying to understand that experience when its period was closing, which later generations will want to study.

The outbreak of war has nevertheless altered my plans of publication. I have not written merely for the later generations which will survey our problems from a distance, but for the present generation which has to grapple with them now. For some years I hoped that my work might be completed before the outbreak of war; I am now anxious that some part of it at least should be read before the making of peace. The first two chapters of this volume attempt to lay foundations for a study of economic policy both in the 'autonomous nations' of the British Commonwealth and in the Dependencies: the third chapter concentrates upon the experience of the 'autonomous nations', and follows it as far as 1939. There is sufficient unity in these three chapters to justify their separate and immediate publication. It may be possible later on to complete the work by publishing some more chapters which will find a similar unity in their concern with African problems. One of these chapters was already written before September 1939.

Even if the work is thus completed, it will still fall short of the ambitious plan which I made some years ago. The plan was broadly sketched in the preface to the first volume of this *Survey*. The preface began by quoting a famous memorandum in which Sir Eyre Crowe discussed the nature of naval power, arguing that the jealousies which it provokes can only be averted—

'on condition that the national policy of the insular and naval State

is so directed as to harmonize with the general desires and ideals common to all mankind, and more particularly with the primary and vital interests of a majority, or as many as possible, of the other nations'.

Sir Eyre Crowe believed that the British Empire had achieved this 'harmonization' by its policy of national freedom and by its policy of economic freedom. Was his memorandum justified in his own time? Did the same confidence fit the realities of the situation after 1918? I took the latter question as the starting-point of my own inquiry, and planned my book in two volumes: Volume I, 'Problems of Nationality', and Volume II, 'Problems of Economic Policy'.

The orators of the Imperial Conference declared that the British Empire was realizing the principle of freedom by transforming itself into a Commonwealth of Nations. They declared that each of the free nations of the Commonwealth was shaping its policy by the ideal of 'equal rights for diverse communities'. I tested these professions by confronting them with the constitutional and political facts. In some parts of the Empire (Canada, for example) the theory and the facts fitted very closely together; in other parts, such as Kenya, there was a discordance. Investigation showed how complicated the reality was, in contrast with the theory. It became necessary, even in the first volume, to take some account of the economic facts, as well as the constitutional and political ones. Irishmen, when they demanded national self-determination, were demanding something economic as well as something political, their efforts to make this demand effective were examined as a single piece [1] The warring communities in Palestine were divided not merely by racial feeling but by their separate ways of economic life. the lines of economic stratification were compared with the lines of racial division. But most of the economic testing was necessarily postponed to the second volume. Before I began writing it, I had committed myself to asking questions like the following: Was the economic relationship between Great Britain and the Dominions, like the constitutional relationship, a 'network of contacts' joining free and equal societies to each other? Was constitutional change in India transferring from British to Indian hands the effective guardianship of India's economic destinies? Was economic policy in southern Africa really aiming at 'equal rights for diverse com-

[1] It has therefore been possible in the present chapters to exclude Irish problems, thereby permitting greater concentration on the overseas Dominions. Still further concentration has been achieved by postponing the study of South Africa's economy to the part of the book which deals specifically with racial and economic issues in Africa

munities', or was it aiming at the erection of a racial-economic caste system ?

To these particular and concrete questions was added the challenge of some resounding generalizations.[1] A friendly German critic who read my first volume in draft dismissed altogether the conception of the Commonwealth as an association of free nations; he justified the Empire because it was founded (so he said) on the continuing ascendancy of a single aristocratic race, the English. M. Stalin's speeches on Marxism and Nationality condemned the Empire because it was founded (so he said) on capitalist exploitation by the possessing race and class. If either of these generalizations contained the whole truth, there was little point in persisting with my particular questions, for they could be answered by deduction But I ventured to decide that these generalizations ought to be tested, just as the Imperial Conference orthodoxy was being tested, by investigations into fact. I was not to be deterred from asking my particular concrete questions. And, as I made headway with my second volume, I found that I had to face new questions. Some of these new questions were technical, others were hardly less general than those put to me by reading Stalin and listening to my German friend. I had to grapple with detailed problems of migration, investment, and trade. And I found myself continually preoccupied with wider aspects of the relationship between economic and political activity, between sovereignty and 'the natural propensity of mankind to traffic and exchange'.

Finally my questions and study took shape in the following table of contents:

Chapter I· Perspective View.
Chapter II: The End of the War.
Chapter III: The Autonomous Nations of the Commonwealth.
Chapter IV: Africa. Evolution of the Settlers' Frontier.
Chapter V: Africa. Evolution of the Traders' Frontier.
Chapter VI: India: Economic Aspects of Constitutional Change.
Chapter VII: Review.

Under these headings it seemed that I should be able, while retaining the 'microcosmic' method of detailed investigation, to face all the larger questions which had forced themselves upon me. But if to-day I were to persist with this complete plan, publication would be delayed for some years yet. So I have come to terms with circumstances. Everything that I have written about the Dominions (excluding South Africa) is published now. The African chapters may

[1] See above, vol. i, ch. viii.

follow before very long The Indian chapter, though it would carry further a study of the Indian national question contained in volume I, will probably not be written. It is to be hoped that some other writer, equipped with a first-hand and sympathetic knowledge of India's national, religious, economic, and governmental problems, will undertake in one sustained effort a *Survey of Indian Affairs 1918–1939*.

It may be appropriate to address some words of explanation to economists. They will perhaps feel impatient with my book because it moves so slowly: why waste so much time about situations and policies whose significance is quickly clear to the trained economic intelligence? My defence is that I am writing history. The historian is trained to study policy not merely in relation to economic theory, but in relation to the situations out of which policy arises. He cannot foreshorten his study by leaving out emotions or interests or vulgar errors which are part of those situations and therefore determinants of policy. For example, a student of the migration question between 1918 and 1939 has to reckon, not merely with the real population trends, but also with the illusion, widely held twenty years ago, that a British Empire of three hundred million white inhabitants could be confidently expected by the end of the twentieth century. Similarly, in the closely connected matters of investment and trade he has to follow the process by which policy fumbled its way through illusion towards reality—or was it towards new illusion? It is at this point that economic criticism must be called in

I have been helped by economists, historians, and officials in all the Dominions Some of them would not wish their names to be mentioned, so I must thank generally all those who have read parts of my work in draft or have discussed difficult points with me. I must also thank some friends who have warned me at times when a tired mind was revealing itself in a flagging style. I owe most of all, in this as in some earlier enterprises, to the friend whose memory is recorded in the dedication of this volume. I also owe much to the friend and collaborator whose penetrating essay on Marxist theories of Empire is printed at the end of the volume.

There are other debts which I most gratefully record. The Leverhulme Fellowships Trust gave me the opportunity of nine months' investigation in the Dominions, and the University of Birmingham generously made the arrangements which permitted me to use this opportunity to the full. Without such help I could not have completed even that part of my work which is now published.

Finally, I must again express my thanks to the Council of Chatham House and to the Director of Studies, Professor A. J. Toynbee, for

encouraging me to exercise full freedom in planning this Survey and working on it. I have tried always to bear in mind their hope that the Survey will be continued, and to lay foundations which may be useful to the writer who will follow me. But every one must work according to his own individual method, and there are parts of the British Empire—the West Indies and British Malaya, for example—with which I have been unable to deal. When the time comes for my successor to begin the third volume of this Survey, he will find that the 'perspective view' still remains incomplete.

W. K. HANCOCK

8th December 1939

CONTENTS

CHAPTER I

PERSPECTIVE VIEW

I

ECONOMIC FRONTIERS

THIS volume sets out to probe the economic content of policy in the British Commonwealth of Nations since the Great War. It will grapple with the economic problems of colonial and mandatory rule. It will investigate the relevance or irrelevance of the Commonwealth tie to the economic policies pursued throughout twenty years by half a dozen fully autonomous governments. It will view the policy of each separate area against the individual background of economic organization and change in that area. It will relate all this complex and intractable economic material to the basic political forces. This, at any rate, is the programme. It would seem to be a formidable programme. But is it? Is there any real need for investigation? A dogmatic word challenges the investigator before he has even begun his work, and tells him to spare his pains. That word is *imperialism*. Many writers use the word as if it contained all the history and politics and economics of all the empires that are and have ever been. How happy men would be if the words which they make could really hold so much! What a blessed relief to them from the toil of inquiry and thought! Alas, they may get anything, or they may get nothing, from these words which pretend to tell them everything. Imperialism is a word so arrogantly and capriciously used that it has become a positive hindrance to thought. Some men use it in order to praise, others in order to blame; and the things which they praise and blame are different things. 'I am a good imperialist,' an Australian statesman declares, intending merely to avow his resolve to do what in him lies to preserve the constitutional ties which join Australia to Great Britain. 'He was a constructive imperialist,' writes an historian in praise of the honest, plodding Huskisson. But to Marxian theorists and an increasing proportion of the ordinary public the 'imperialist' is a robber and a bully. Imperialism is no word for scholars. The emotional echoes which it arouses are too violent and too contradictory. It does not convey a precise meaning. It is like a stage-screen from behind which may step the most oddly assorted figures—Lord Durham and Mr. Joseph Chamberlain and Mr. Asquith and Mr. R. B. Bennett and David Livingstone and Signor Mussolini.

The Marxist critics who have adopted this difficult word have managed to hammer it into some sort of consistency, so that it circulates within their restricted circle as coin which has at least its own definite ring. It is a harsh ring, for with a pessimism which is the exact counterpart of the optimism of their 'orthodox' precursors, the Marxist economists have assumed in the economic process throughout past history the presence of 'an invisible hand' whose operation is always evil. They have at the same time postulated that the economic pressure is the basic thing in history. Imperialism therefore means to them the extension in space of a society whose action is determined by its economic and class structure; it is rooted in exploitation and grows by exploitation This conception has the great merit of focusing attention, not merely upon governments, but upon the forces which move governments It is a useful sign-post for the working historian All the same, it is not nearly so precise as it ought to be. Consider one historical element only, that of recorded time. According to some Marxian experts, imperialism belongs to all recorded time, so that it is possible to speak of Athenian imperialism, or Venetian imperialism, or eighteenth-century British imperialism. According to Lenin, imperialism is only 'the highest stage of capitalism', and cannot really be said to exist before 1876 A concept surely cannot help our thought very much if we do not know for certain whether it fits the facts of two millennia or merely those of two generations![1]

Let others labour to split the *ism* It is no task for the historian He is free to disregard the concepts which other people make, if they do not help him to get his material into focus. He is free to push ahead with his own investigations, stating his problems in his own terms and using the words which suit him best. No harm if they are unpretentious everyday words! For the present inquiry, the word *frontier* will serve as a starting-point This word too has different significations, but the differences are clear-cut, and they offer a useful clue In books dealing with European history, the frontier is something fixed. It is the sharp edge of a sovereign State. In books dealing with American history, the frontier is something moving. It

[1] Perhaps one should not stress too much the verbal carelessness of Lenin, who quotes with approval Mr J A Hobson's less pretentious but more useful distinction between the 'new' and the 'old' imperialism. (See *Imperialism*, Little Lenin Library, vol xv, p 83, and J A Hobson, *Imperialism*, London, 1902, p 324.) Yet this verbal carelessness is suggestive of deeper faults in Lenin's book. It is not, after all, very helpful to define one *ism* by another *ism* especially when that other *ism* is itself 'an unwholesome Irish stew' into which very miscellaneous ingredients are thrown. (See E Heckscher in *Economic History Review*, November 1936, p 45) And see Appendix I to this volume for a review of the literature dealing with 'Imperialism'.

is the advancing fringe of a dynamic society. The European frontier is fundamentally a political thing. The American frontier is primarily an economic thing.

The European frontier was not always something sharp and fixed and impenetrable In the eighteenth century European frontiers were still leaky not all the bloody laws of France and Spain, Adam Smith said, were able to keep their gold and silver at home. But the bloody laws of Russia or Germany are able to-day to keep their roubles or marks at home! A few centuries before Adam Smith wrote, the frontiers which partition Europe to-day hardly existed. Was England an exception? A rhyming patriot of the fifteenth century exhorted his countrymen to

'Keep then the sea, which is the wall of England'

But the 'wall' did not wholly surround England. England was not entirely an island In the north there had been no wall since the Romans left. Instead of a sharp frontier separating England and Scotland, there was the loose feudal society of the border The border was not a line, but a district, where the thieving Scot and the thieving Englishman had sufficient liberty for roving forays A few centuries earlier it had been the same in the west, between England and Wales there was no state-guarded frontier, but the marches entrusted to feudal oversight. It was everywhere the same in medieval Europe. Before the frontier, there was the march Instead of sovereign states and their clear-cut frontiers, there was a confused patchwork of feudal jurisdictions, an indistinct merging of France into Germany and Germany into Poland, and a single society of religious ordering in which all temporal authority was embedded But during the past four or five centuries the sovereign State has been steadily gathering into its own hands all authority, spiritual no less than temporal, it has been seceding from Christendom and constituting itself as a distinct society, sufficient unto itself. It finds its criterion of success in the impenetrability of the frontier which surrounds its territory. It regards military and administrative achievement as the condition of all other achievement. It has already made the frontier a wall lined with soldiers and customs officials, a wall propped up by the defence forces and the bureaucracy which the sovereign government controls from its capital city, a wall which cannot be knocked down or shifted except by stronger pressure from the other side. But can the wall exclude the intellectual and spiritual forces of neighbouring societies? Can it contain the economic energies of the society which it surrounds? In our own day, states

which call themselves 'totalitarian' have not shrunk from pursuing even these objectives. The sovereign people, or the ruling faction which claims its authority, has sought in every sphere of human life to apply the maxim of the sovereign prince, *cuius regio illius religio.* The self-sufficiency which the State pursues must be made absolute in the economic and the intellectual sphere. The perfect unity which is its goal must be a unity of all power—the power of armies and factories and schools, the power of a single will and faith. There must be no frontiers, of commerce or of thought, advancing and intersecting by the laws of their own motion independently of what the State has willed. The fixed political frontier of each separate sovereignty must encircle a national being which is one and indivisible, body and soul.

A single quotation will reveal how different and how challenging is the meaning which the Americans have given to the word *frontier.* 'Stand at Cumberland Gap and watch the procession of civilization marching single file—the buffalo following the trail to the salt springs, the Indian, the fur-trader and hunter, the cattle-raiser, the pioneer farmer—and the frontier has passed by. Stand at South Pass in the Rockies a century later, and see the same procession with wider intervals between.'[1] The American frontier is not a political thing but an economic thing; it is not an institution but a movement. It is the wave of civilization advancing across the continent—or rather it is a series of waves. The traders' frontier rapidly and easily invades the west, because the Indians are eager for the white man's goods. But the quick advance of the traders' frontier delays the advance of the farmers' frontier, because chief among the white man's goods are firearms. The farmers' frontier itself, under closer inspection, reveals itself to be a whole series of frontiers, advancing at different speeds which are determined by differences of geographical setting and economic technique. In the dry west the ranchers' frontier moves more rapidly than the farmers' frontier; the miners' frontier reaches the Pacific coast in one long leap The detailed analysis of the advancing frontier is a task on which American historians have worked fruitfully for nearly two generations. The same theme suggests itself spontaneously to students in Canada or South Africa or Australia [2] There is a famous gap in the range of the Blue Mountains,

[1] See the famous essay, *The Significance of the Frontier in American History,* read by Professor Turner to the American Historical Society in 1893 and published with other papers under that title

[2] I used the idea of the moving frontier in Chapter I of my book, *Australia* (Benn, 1930), without any conscious borrowing from American historians, with whose work I was not then familiar.

that wall of rock and scrub which for a quarter of a century hemmed the infant colony of New South Wales within the coastal plain. Stand at this gap and watch the frontiers following each other westward—the squatters' frontier which filled the western plains with sheep and laid the foundations of Australia's economy, the miners' frontier which brought Australia population and made her a radical democracy, the farmers' frontier which gradually and painfully tested and proved the controls of Australia's soil and climate. Stand a few hundred miles further west on the Darling river, and see what these controls have done to the frontier. The farmers have dropped out of the westward-moving procession, beaten by aridity. Only the pastoralists and prospectors pass by. In the west centre of the continent, aridity has beaten even the pastoralists. On the fringe of a dynamic society there are left only a few straggling prospectors and curious anthropologists, infrequent invaders of the aboriginal reserves.

The concept of a moving frontier will reappear frequently in this book. But what is it that makes the frontier move? The phenomenon of its movement is not confined to the new trans-oceanic countries and to recent times. The great wave of European civilization which in the past century has swept over the grass-lands of North America and South Africa and Australia is only the last of a series. There was a great Renaissance wave, which carried European civilization across the ocean and lodged it in the New World. And there was a vigorous medieval wave which five or six centuries earlier initiated the whole historic process of European expansion. It is in the simple beginnings of this process that we can most clearly perceive its causes

The medieval expansion of Europe is of two distinct types—a predominantly landward expansion, with the Germans in the van of it, and a predominantly maritime expansion, with the Italians leading. Corresponding to the two distinct types are two distinct impulses. 'The natural propensity of men to traffic and exchange' was the dynamic of the maritime expansion, the natural propensity of men to multiply their numbers was the dynamic of the landward expansion. Medieval history is full of pitfalls for the generalizing historian, but the main features of both the German and the Mediterranean expansions are clear. The German expansion is the historic root of some important contemporary problems; it forced its way across the Elbe into the Slav lands, but its advance was not unbroken; it left the Czechs as a Slav promontory jutting into the Teutonic sea. Contemporary German historiography and National-Socialist

propaganda emphasize the racial-political impulse to expansion: the Germans, they argue, were pursuing a mission of civilization, conquering and civilizing inferior Slavs. This impulse may possibly have been present, but it could not have been very clearly conceived. After all, Germans of the twelfth century did not have the privilege of reading *Mein Kampf* and the works of Herr Rosenberg. What did they read? Chiefly the books of Christian teaching. The ideas in their heads were more probably the ideas of Christianity than the ideas of race. If the advancing frontier was in one aspect a racial frontier, still more was it, in the minds of contemporaries, a crusading, a missionary frontier. But most of all was it a population frontier, a frontier of settlement. It is agreed among historians that population pressure was making itself felt in the agricultural villages of western Europe as early as the tenth or the eleventh century. One of the consequences of this pressure was pioneering. The *villes neuves* north of the Loire, the *bastides* south of it, the *polders* of the Low Countries, all testify to an overflow from the old villages and a determined effort of internal colonization. But a time came when overcrowding made itself felt in the new villages also. The overflow then broke through the frame of old Christendom and forced its way from the German lands into the Slav lands. It was conquest and extermination, it was a crusade, it was economic adventure. The story of it—like the story of many another outpouring from the homelands of Europe—cannot be truly told without doing justice to its political, ideological, and economic aspects. Modern historians have revealed the deep significance of the economic impulse. Professor Eileen Power ventures upon a detailed comparison between twelfth- and thirteenth-century Germany, with its movable eastern frontier, and nineteenth-century America, with its movable western frontier. Both countries, she says, 'passed through the same stages and bred the same types'.[1]

Our first economic frontier, then, is the frontier of settlement. It has no necessary connexion with any political frontier. We can if we wish imagine an 'empire of settlement' to which the frontier of settlement belongs, but we shall do well to think of it as a metaphorical empire, an 'informal empire'.[2] The advance of a settlement frontier may pull the frontier of imperial sovereignty after it, or the establishment of sovereignty may encourage settlement; but neither of these things necessarily happens. We shall see later on how imperfect was the correspondence between the extension of British

[1] *Cambridge Mediaeval History*, vol. vii, p. 723.

[2] The phrase is used in C. R. Fay, *Imperial Economy* (Oxford, 1934), p. 46.

settlement in the nineteenth century and the extension of British sovereignty. Only some of the places marked red on the map were attractive to British emigrants; the places which attracted them most powerfully were not marked red. The frontier of settlement is a discriminating one; it picks and chooses its location in response to considerations of climate and social opportunity. But there is another type of economic frontier, and another type of 'economic empire' to which these considerations are largely irrelevant. The frontier of trade does not pick and choose. The 'empire of trade' is ubiquitous.

In British history, sovereignty has been a frequent by-product of commerce, but not an inevitable one; otherwise the greater part of the world, instead of a mere quarter of it, would have been painted red in the nineteenth century. Is there a logic which sometimes connects the traders' frontier and the frontier of imperial rule, and sometimes rejects the task of connecting them? Or is their connexion or disconnexion merely a product of accident? Once again, the experience of a medieval community may suggest an answer. The history of Venice[1] is full of material which demonstrates an underlying identity of process between the 'old imperialism' and the 'new imperialism'—and this despite the contrast between them in their range and impact, a contrast which is no less obvious than that between medieval and modern weapons of war. It would certainly be ridiculous to shut one's eyes to the technical gulf between a caterpillar tank and a mailed knight, or that between the modern chartered company and the medieval *maone*, but it would be equally misleading to ignore similarities of principle in the employment of these contrasted technical instruments.[2] The earlier Venetian example illuminates the study of the later maritime expansion of Europe, and illuminates particularly the interaction between its economic and political aspects The primary aim of Venice was not political power, but trade; she built her empire to safeguard her trade. Already, in the eighth century, she was known in the Mediterranean as *ἐμπόριον μέγα*, the great mart The profits of buying and

[1] The monumental work of W von Heyd, *Histoire du commerce du Levant au Moyen Âge* (ed Furcy Raynaud, Leipzig, 1885–6, new impression 1923), is a sufficient quarry of material for the non-specialist Although the general student will find in the Mediterranean his best examples of the processes of the empire of trade, it should be remembered that the Germanic land expansion was supported by the commercial activities of the Hansards

[2] Heckscher (*Mercantilism*, vol I, p 340) sees even a strong technical resemblance between the *maone* and the colonizing company The most perfect example of the *maone* is not Venetian, but Genoese—that of the Giustiniani See Heyd, op cit, vol I, p 498.

selling were the material out of which she wrought her beauty no less than her power; with them she made herself 'the golden city'.[1] The conventional political approach to her history altogether misses its deepest significance, which is European. The Venetian traders are the vanguard of the rising bourgeois class destined to transform feudal Europe. They live for and by a society far wider than their own municipal boundaries, the 'great society' of economic collaboration. The only frontier which this society knows is the advanced line of eastern trading-posts common to the merchants of all nations. The Venetians may be foremost among the Italians, and the Italians may be foremost among Europeans, but the frontier belongs to all Europe.[2] Yet Europe is more than an economic society. her commercial frontier becomes the frontier of crusading Christendom. And Europe is less than the great society of commerce and less than Christendom: her common frontier of commerce and religion is split into the separate frontiers of her warring sovereignties. Her expansive energies may originate in commerce, they may be directed by religion, but in the end they are deflected and distorted by politics. The scandal of the Fourth Crusade gives the measure of this distortion.

Yet the distortion was an inevitable part of the historical process. It is only by an idealist abstraction that the Mediterranean cities can be viewed exclusively as members of an unsundered economic society; no less real were their political independence and their strategic needs. At every stage Venice felt herself to be driven by necessity. Even in those early days when she set her feet on the path of an independent life between the two empires of the East and the West, she felt the need of political power to support her commercial life. In particular, she needed a naval force to guard her insular security and to protect her trade routes to the east. Naval power originated as a necessary corollary to honest commerce, it soon proved its value as a means of winning monopolistic privilege. In return for naval support against the Normans, Venice in 1081 secured from the Byzantine Empire privileges of commercial priority and tax-exemption which placed her far ahead of European trade competitors, and even ahead of the Empire's own merchants To defend her primacy, Venice little by little stretched privilege into sovereignty. No doubt she was powerfully influenced by experience garnered in Syria and Palestine. This experience seemed to prove

[1] *Aurea Venetia*

[2] See the exhaustive inquiry in Heyd, op. cit, vol i, pt i He follows the same method in the study of the later periods of commercial expansion It is to be noted that in the early period—roughly until she was conquered by the Normans—Amalfi played a part equal to that of Venice.

both the commercial advantages accruing from political control and the desirability of rendering that control separate and exclusive. The bourgeois supporters of the crusades reaped an immediate and rich return on their naval investments. They secured from the new crusading States by donation or treaty, privileges which are analogous to the 'concessions' which traders of the western nations secured in nineteenth-century China They were given the ownership and jurisdiction of specific quarters in the Levantine cities; they were granted religious and commercial privileges and even the right to collect and possess some of the customs revenues. To maintain and enlarge these privileges was the interest and ambition of all of them. It was their common class-interest But political allegiance divided them; as Pisans or Genoese or Venetians they fought unending sectional battles for priority or monopoly against each other. Considered in the wide sweep of European development, the activity of these *concessionnaires* represents a notable extension of the economic frontier and a consequent intensification of the rhythm of social transformation. But the *concessionnaires* saw little of this. They were more conscious of their separate political frontiers than of their common economic frontier. They forgot their common interest; they betrayed the common frontier of Europe, and thus they left it to other merchants of later centuries to set this frontier in rapid and dramatic motion again by way of the oceans.

This is how the modern historian interprets the whole chapter of Mediterranean enterprise in the Levant But the Venetians of the twelfth and thirteenth centuries were not reading this chapter, they were writing it. They regarded the unceasing fret and danger of their Syrian rivalries as an argument, not for co-operation, but for monopoly. They saw their great opportunity in the Byzantine Empire. But even in that special field, their early predominance was threatened. It was threatened first of all by Greek nationalism, which—like Chinese nationalism at the turn of the nineteenth century—was beginning to explode against the foreign devils. Moreover. the Greeks—again like the Chinese—were not above admitting a new foreign devil to drive out the old one So the Venetians, in order to defend their predominance at Constantinople, had to make increasing use of force, not only against the Empire itself, but against Genoese and Pisan rivals whom the Empire was sheltering. In the end, Venice cut the knot by turning the Fourth Crusade against Constantinople.

In the division of Byzantine spoil may be traced the outline of the territorial empire of Venice. A detailed examination would show

that this territorial sovereignty conformed strictly to the ground-plan of the 'empire of commerce', it was no more than the necessary strategic reinforcement of quasi-monopolistic trading interests. The trouble was, that one reinforcement seemed so often to demand another. The 'empire of commerce' was even led by strategic necessity to found an 'empire of settlement' for its support. Its efforts in this field were strictly limited; but a striking example of them can be studied in Crete. Crete was a kind of Clapham Junction in the Mediterranean; the mastery of this island was an essential part of the mastery of the eastern trade routes. But in order to hold Crete against the Cretans, and at the same time to keep the Genoese out of it, Venice found that she had to colonize it. Even then, it cost her endless trouble. Her own colonists, like the Protestant Ascendancy in Ireland, struggled rebelliously for equality with Venetian citizens at home. And behind this wave of colonial rebellion there surged—like the struggle of the Irish masses for their 'four green fields'—the still more menacing wave of native Cretan rebellion.

So the frontiers of Venetian expansion became entangled with each other—political frontier and economic frontiers, frontier of trade, strategical frontier of territorial possession, frontier of settlement. Similar unplanned entanglements have been common in the history of the modern British Empire, to which we now turn. With the exception of two important periods to be considered later, the British Empire, like the Venetian Empire, has been moved primarily by the impulse of trade Sometimes, like the Venetian Empire, it has suffered reluctant transformations to settlement It has never been backward in extending its political frontiers for strategical reasons, yet frequently its extensions of sovereignty have been unplanned and undesired. One is aware that protestations of reluctant annexation are apt to provoke the derision of scoffers, who point out that His Britannic Majesty has been unable to satisfy his modest needs with anything less than one quarter of the surface of the earth. To this it may be replied that imperial authority has not infrequently been pulled along by local economic and ideological forces These forces may be seen persistently at work through more than two centuries of South African history.

The history of South Africa[1] illustrates by example the activity of every type of economic frontier, including some types which we have not yet examined It illustrates also the activity of the

[1] For the convenience of those readers who may wish for a simple check on the following argument, all quotations, except when otherwise stated, are taken from *The Cambridge History of the British Empire*, vol vii, *South Africa*.

missionaries' frontier. And it illustrates the manner in which economic and ideological expansion is apt to necessitate an expansion of sovereignty. South Africa is now an equal member of the British Commonwealth, a European people which by struggle has imposed itself on a subject native population. This destiny was never conceived in an imperial plan. The Dutch held the Cape before the English, and both Dutch and English valued it merely as a means to the end of trade in other places. 'The first South African White Paper', which was before the Dutch East India Company in the year 1648, set forth two arguments for the occupation of the Cape—its value as a 'refreshment station'. and its strategic value for the defence of the East Indian trade route. In the eyes of its Dutch masters, the Cape never had any other purposes to serve except these two. Nor did the English want it for any other reason. 'As a colony', wrote one of the directors of the English East India Company, 'it would be rather dangerous than otherwise, as there is too much encouragement for settlers, and we have already too many drains upon our own population.' But, when the armies of revolutionary France overran Holland, British naval experts advised the government that it would have to occupy the Cape. 'What was a feather in the hands of Holland', one of them wrote, 'would become a sword in the hands of France.' The British occupation was a necessary event in the strategical history of the empire of commerce Great Britain took and held the Cape as 'the master link between the western and the eastern world . the great outwork of our Asiatic commerce and Indian Empire'. Nobody planned, nobody hoped, that the South African hinterland would ever become part of an empire of settlement

Yet the British, even in 1795, might have learnt from the experience of the Dutch how impossible was the dream of restricting the development of the colony within the framework of the empire of trade The Dutch had long since become entangled in the following dilemma· either they must forgo the purposes which had prompted their occupation of the Cape—and this they dared not do—or they must be pulled into the purely local purposes which the colony itself was developing Could not this development be checked? Not without jeopardizing the security of the colony, and thereby destroying its value for the empire of commerce. For it soon became clear that the military occupation needed the backing of an active colonial economy. The niggling covetousness of the Dutch business-man demanded that the colony should pay its way, and when it failed to do so, the business-man's wistful optimism hankered after 'something

rich to be discovered or something profitable to be contrived for the solace of the said company'. Still more important than these profit-and-loss considerations was the strategical factor. The best of all garrisons was seen to be a colonial population rooted in the soil. 'Planting a good colony of our Nation'—so reasoned a high official in 1685—was the best way to hold the Cape—the only effective means 'to keep out all enemies and assure its peaceful possession to the Company'. But this policy meant that the colonists must be left free, within limits—the limits were as severe as the Company could make them—to fashion their own economic life. Before long the Company repented altogether of its colonizing policy. But the colonists were already actively responding to the challenge of the South African environment.[1] The first governor had in a moment of optimistic Dutch tidiness planned a colony of exactly 6,000 acres, encircled by the sea and a fortified stockade. But the settlers adapted themselves to economic and geographical circumstance by improvising a pastoral economy with a 6,000-acre farm as its typical unit. This 6,000-acre farm is the most fundamental fact in South African history. It is the historic root, not only of the present problems of European agriculture in South Africa, but of the problem of native congestion and the whole industrial system in so far as it rests upon native congestion. The human product of the 6,000-acre farm was the trekking Boer, who has been the most active maker of South African history. You must check this brand of men, said a governor to his successor, for 'the whole of Africa would not be sufficient to accommodate and satisfy them'.

Government did its best to tether this sprawling society. The eighteenth century added new reasons for setting bounds to its growth—for the Boer had now met the Bantu, and expansion meant the danger and the cost of war. Besides, Dutch officials, like other eighteenth-century people, were becoming imbued with ideas about the nobility of primitive people and the rights of man. They refused at last to give protection to the farmers of an expanding frontier. Frontier society thereupon organized its own protection. The first secession of frontier society occurred on the very eve of the first British occupation.[2]

From the beginning, the British had to face the same dilemma

[1] Or were they rather following the line of least resistance? The 'Evolution of the Settlers' Frontier' in southern Africa will be examined in Part II of this volume

[2] The reference is to Graaff Reinet, which renounced obedience to the Company and local rule while still protesting loyalty to the States General As for humanitarian ideas, they were stated both in the language of Rousseau and—by the Moravian missionaries—in that of Christianity.

which had baffled the Dutch. They denied the need for expansion into the hinterland. They denied the white man's right to take land which the black man held. But they were determined to hold the Cape as a bulwark of their trading Empire. Security in this imperial fortress necessitated good order in the colony. And this in turn depended upon good order on the frontier. Good order was impossible so long as society was continually outrunning government. Government was unable to hold society on a leash. Logically, the only course left to government was to advance in front of society, and thereby discipline its invasions. This was the policy which the missionaries—themselves part of the advancing European tide—continually urged upon the Colonial Office. They argued that it was the only humane policy, the only way of securing elementary justice to the Bantu.[1] They argued also that it was the only safe policy; for the advance of the frontiersmen was bound to create perpetual war, not merely where the advance occurred, but in other districts into which the displaced Africans were driven. In their view, the native question of South Africa was of a single piece, and the land would have no rest until it was gathered into a single sovereignty, which would secure native lands, substitute the policeman for the *commando*, and impose upon frontier society the discipline of the civilized State. Experience proved in the end that this argument was true, but some generations were to pass before it prevailed against the pleadings of economy, caution, and an ill-founded optimism. This optimism shut its eyes to the environmental conditions, which, in South Africa as in Australia, had produced a pastoral economy with a tendency to sprawl indefinitely. Wistful longings for a settled agricultural frontier prompted the experiment of the '1820 settlers'. The settlement failed to achieve its stabilizing purpose because the Albany district was not adapted for agriculture. It simply introduced a British element into the frontier without changing its pastoral and expansive nature. The basic problem—the problem of a society advancing faster than government was willing to advance—remained unchanged.

Missionary activity actually instilled into frontier society a conscious determination to escape beyond the range of government. For it achieved within the limited area of Cape Colony successes

[1] e g Dr. Philip quoted *Cambridge History of the British Empire*, vol vii, p. 312. 'On the subject of the Kaffirs . . being retained as British subjects I have long made up my mind . They cannot otherwise be saved from annihilation' And again 'England, by extending her institutions over such provinces might have made her dominion a blessing' But there was one proviso—'Provided the natives have their land secured to them'

which the South African pastoralist could not endure. Cape Colony gradually became a State patterned on the principles of religious and philosophical liberalism, based on the theory of the equality of men under the law. Such an order was intolerable to the Dutch pastoralists, who held the simple theory that land was the natural right of the white man and labour the natural lot of the black man. Frontier society trekked into the hinterland and set up its own political order. The missionaries argued that government must follow this seceding society. Economy, caution, and laziness found persuasive reasons for letting it alone. Government tried to find a middle way. But in the long period of compromise, with its alternating spasms of advance and withdrawal, the two opposed forms and theories of society embodied themselves in conflicting legal systems and political habits. Thus European society in South Africa prepared for itself future conflicts which not even the South African War and the formal unity which followed the war have resolved.

The reluctance of Great Britain to extend her political empire in South Africa began to disappear with the disappearing nineteenth century The explanation of this change, we shall soon see, is to be found chiefly in the emergence of a new kind of economic frontier. There were, it is true, other reasons. The persistent logic of the missionary argument—that the basic South African problem, the Native problem, was one, and that therefore government must be one—was being continually supported by experience. Nevertheless, until the last decades of the century, this logic made little progress in winning converts. Of greater effect was an emphatic restatement of the original strategical argument. In the eighteen-eighties, European power rivalries invaded the African scene, Great Britain's power-monopoly in southern Africa became open to challenge by any European rival strong enough to capitalize the discontent and ambition of the Transvaal. This new situation brought to missionary logic a reinforcement from the quarter of high politics.[1] But the most dramatic reinforcement came from the economic quarter. The wistful dreams of the Dutch East India Company were at last belatedly fulfilled. 'Something rich' was found in the hinterland. In the eighteen-seventies it was diamonds; in the eighteen-eighties it was gold. For nearly a century South Africa had been a nuisance—it had meant unwanted responsibility, expense, war, the reproaches

[1] Cf C. W de Kiewiet, *The Imperial Factor in South Africa* (Cambridge University Press, 1937), p 310 'The unique isolation of South Africa was shattered . The British Government was forced back into South Africa.' According to the same author (op cit, p 57), the reappearance in South Africa of governors imbued with the 'Indian and military tradition' played some part in this 'forcing back'.

of missionaries and sometimes the reproaches of one's own conscience. But now there was money in it. Imperial authority, which had grown weary of pursuing the pastoralists' frontier, was determined to bring the miners' frontier within its jurisdiction. For it was the miners' frontier, and something more. The new frontiersmen were not all of them humble diggers, among them were men like Cecil Rhodes and Barny Barnato and Otto Beit. One might almost say that 'the City' was now on the South African frontier The last and the most potent in the series of South Africa's economic frontiers may be called the frontier of investment.

This is the new brand of economic circumstance which Marxist writers have in mind when they define 'imperialism' as a phenomenon whose operation begins in the eighteen-seventies.[1] Undoubtedly it is important And yet the greater part of the British Empire—India, Canada, New Zealand, Australia—was in existence before it had begun to operate. As for South Africa, more than half of it was already under British sovereignty and the rest of it was under British suzerainty Lenin knew something about the action of the European capitalist, using the State as his instrument, he knew nothing about the 6,000-acre farm, which for two centuries had been the dynamic factor in South African history, pushing a restless pastoral people into the hinterland and pulling the reluctant State after it.

We must leave South Africa now: it has exemplified for us the leading types of economic frontier [2] Later on we shall have to return to the investors' frontier, examining it in a context wider than that of South Africa But there still remains something to be said about the simpler types of economic frontier, and, in particular, the settlers' frontier We have seen how Great Britain in South Africa, like Venice in Crete, became entangled in complicated purposes which were not originally of her seeking, and found herself in her own despite landed with responsibility for an extensive colony of settlement. We must not leap to the conclusion that all the Dominions and the entire empire of settlement similarly made their own way against the current of imperial policy. This is not the truth. And yet the South African example does suggest the state of mind which was dominant throughout *the greater part* of the period in which the British people were founding their Empire. They did not want an

[1] Leonard Woolf had the same facts in mind when he insisted that 'something different' in the history of empires revealed itself in the partition of Africa in the eighteen-eighties (See *Empire and Commerce in Africa*, Allen & Unwin, 1920, p 21) He was right to insist on this difference, but he, like Lenin, exaggerated the extent of it.

[2] The foregoing paragraphs on South Africa also prepare the way for the full-dress study in Part II of this volume

empire of settlement. They wanted trade. They did not want to plant new Englands across the seas. They had already in the seventeenth century landed themselves with one New England, and they considered it 'the most prejudicial plantation to this kingdom'. Shrill patriots of the later seventeenth and eighteenth centuries inveighed against the emigration of men and women to the colonies—'population being riches' which should be kept at home, population being defence against the foreign enemy. 'Stop the drain', they cried, 'that carries away our natives from us.' Their patriotism, no doubt, was often merely a screen for commercial selfishness. It was not surprising that settlement colonies should win little favour in a trade empire For, taking a short view, they seemed more likely to compete with, than to increase, the commerce of the metropolitan country. 'By Tillage, Pastures, Fishing, Manufactures, and Trade, they to all intents and purposes do imitate *Old England*, and . . . pursue a method that rivals our native Kingdom, and threatens, in time, a total independency thereupon.'[1]

There have been, nevertheless, two most important periods in the history of the British Empire during which a very different attitude to population and emigration was prevalent The first period coincided roughly with the first half of the seventeenth century. In late Elizabethan and early Stuart times—as one can quickly discover in the rich pamphlet literature on vagabondage—the respectable classes professed horror at the spectacle of lewd and naughty fellows swarming in pestilence and penury, so that they were daily consumed by the gallows, and easily convinced themselves that England was a realm 'pestered with inhabitants'. This conviction only prevailed for a bare two generations, but those two generations were of decisive importance in the history of the modern world, for in them British enterprise and emigration laid the foundations of the United States of America.

The second period of faith in the virtue of emigration lasted longer: its beginning was in the early nineteenth century, and perhaps it is still too early to know with final certainty whether or not its end has yet come.[2] Edward Gibbon Wakefield, who in 1828 began his public career as the great evangelist of a new empire of settlement, could look back to a melancholy prophet who thirty years earlier had overthrown the established conception of population.[3] Malthus had

[1] Short and good discussions of the population question in relation to the early days of empire settlement may be found in G L Beer, *Origins of the British Colonial System* (Macmillan, 1908), ch ii, and *The Old Colonial System* (Macmillan, 1912), vol i, pp 19 ff

[2] See below, Chapter III, Section I

[3] Wakefield's *Letter from Sydney*, published as a book in 1829 (the best modern

asked a question which, in its effect on the old politico-economic theory, was hardly less shattering than the impact of Adam Smith. 'Why are we all so rich?' Adam Smith had asked. 'Why are we all so poor?' asked Malthus. His disheartening answer seemed to fit the facts of English society during the period of economic chaos which followed the wars with France. Certainly there was over-population in the sense of under-employment, and there were then few to argue that this was due to the lack of rational economic control. The opinion grew that the United Kingdom's surplus of people—which even during the war had begun to send a trickle to the United States and Canada— should so far as possible be moved overseas. In the *Essay on Population* Malthus had not admitted emigration as a palliative for redundancy of population, but in giving evidence in 1827 before the second select committee on emigration, he lent his great authority to this belief and policy From now on the governing classes were convinced that emigration was at least a safety-valve, and that it might even stave off an impending catastrophe.[1] But how to get this redundant population on the move out of Great Britain? A motive stronger than fear was necessary, and this motive Wakefield supplied. In place of the negative policy of 'shovelling out paupers', he and his friends offered to England the positive inspiring ideal of planting in the New World the virtues and harmonies of her civilization, and this by the very act which would preserve those virtues and harmonies at home Moreover, Wakefield offered not only an ideal, but a technique. Accepting the challenge of what was then the most remote and the most sordid of English colonies, he showed how England could 'build a bridge' between her own cramped cities and the ample opportunity of Australia. His economic argument was often unreal, and his economic geography was fundamentally wrong; yet by conjoining land sales and subsidized passages he did in fact build the bridge which he had promised. The passage of free immigrants across that bridge was a decisive

edition, ed R C Mills, is in Everyman's Library) had for the most part already appeared as articles in the press in 1828 Malthus's *Essay on Population* was published in 1798 The preface to the *Letter from Sydney* begins by quoting an article from the *Quarterly Review* on redundancy of population. Throughout his whole book Wakefield shows himself to be soaked in Malthusian theory. If only women as well as men had been conscripted by Napoleon, he says, 'the good effect of the conscription might have lasted until now' (op cit., p 183)

[1] This is not too strong a description of the situation as the second committee saw it The committee realized that an effective policy would have to embrace Ireland as well as England Referring to the influx of Irish poor into England, it said that 'unless some other outlet is opened to them, (they) must shortly fill up every vacuum created in England or in Scotland, and reduce the labouring classes to a uniform state of degradation and misery'.

episode in transforming the sick society of New South Wales into a healthy community.[1] More dramatic still was the visible effect of Wakefield's teaching and energy in the foundation of new communities in South Australia and New Zealand. His work extended even wider, it pervaded the whole Empire and the whole century. In principle, if not always in detail, he interpreted aright the main demographic and economic pressures, and at the same time encouraged nineteenth-century Englishmen to pursue as an ideal precisely that kind of empire which their mercantilist predecessors had judged to be the least desirable. He and his friends and followers guided the development which created a new empire of settlement and transformed its chief constituent parts into the equal members of a Commonwealth of Nations. Nor had the champions of the empire of trade any cause to complain. Australian wool was merely the most striking example of the commercial exchange which nineteenth-century settlement was capable of creating. The lands of settlement within the Empire made the most outstanding contribution to the total volume of intra-imperial trade.[2]

[1] See generally R C Mills, *The Systematic Colonization of Australia* (Sidgwick & Jackson, 1915) As examples of Wakefield's mistakes about economic geography, notice his contempt for wool and his miscalculation about its future (*Letter from Sydney*, pp 28 and 44) and the preoccupation with European standards and methods which inspired his scorn of the 10 bushel per acre yield of overseas wheatlands He would have been shocked if he could have foreseen that wool and gold and a low-average yield of wheat per acre (which, being also a low-cost yield, proved itself competitively stronger than European agriculture) were to be the foundations of the growing Australian community. His diagnosis of New World economics was fundamentally opposed to that of Adam Smith Smith had welcomed the expanding frontier and had ascribed American progress to 'plenty of cheap land', Wakefield preached concentration and 'a sufficient price for land' Despite his mistakes, he saw much that was essential—the necessity for a balance between the three factors of production, land, capital, and labour, the necessity for effective machinery to direct the flow of migration, the necessity of attending to the age and sex composition of the immigrant population as well as to its moral quality, and the necessity for political freedom, which a healthy colonial society was bound to claim

[2] J A Hobson (*Imperialism*, p 39) held a different view; but see the discussion and references by R Pares in *Economic History Review*, May 1937 p 132 The Dominions Royal Commission gave the following figures for United Kingdom trade in 1913

	Amount in million £	*Per cent of total trade*
Trade with the Dominions	246·149	16·0
Trade with other parts of the Empire	226·316	14·7
Total trade of U K with Empire	472·465	30·7
Trade with foreign countries	1,067·260	69·3
Grand total	1,539·725	100·0

The settlers' frontier and the traders' frontier, and their influence upon the modern imperial history of Great Britain, have now for present purposes been sufficiently explained. Between these two types of economic frontier lies a third type, one that is less than settlement and more than trade. We shall call it the planters' frontier. The example of the West Indies will illustrate its economic significance. English enterprise in the West Indies originated in the first half of the seventeenth century as part of the experiment of English settlement in America. But the majority of settlers were unable to send down roots in West Indian soil. By the middle of the seventeenth century, a great exodus of unsuccessful settlers had begun. Small cultivators working their own holdings gave place to large estates on which British owners or managers directed the labour of negro slaves. The original diversity of production similarly gave place to concentration upon a great staple crop for the export market. By these changes the West Indies made themselves, in the eyes of most mercantilist writers, the example of everything that an empire ought to aim at Even the emigration of Englishmen became tolerable, if it were not too large, and if the emigrants went, not to new 'Englands' overseas, but to plantations in which every white man had ten or a dozen negroes working for him Enterprise of this kind supplied the metropolitan country with necessities or luxuries which could not be produced at home, and at the same time established a rich colonial aristocracy which was able to purchase her manufactured articles. Sir Josiah Child calculated that every Englishman in Barbados or Jamaica made work for four of his countrymen at home In addition, the West Indies rendered an outstanding service to British shipping. Their sugar-plantations were the leading imperial market for African negroes, and the centre of triangular navigation between Great Britain, Africa, and America. No wonder there was hesitation about annexing Canada in preference to Guadelupe. On the economic premisses held well into the eighteenth century, a small but richly productive sugar island was infinitely more desirable than a great mainland territory, whose future as a Dominion nobody envisaged [1]

Modern students of colonization, thanks to the writing of M. Leroy-Beaulieu, are familiar with the contrast between the settlers' frontier and the planters' frontier, or—to adopt for a moment the French

[1] Strategic questions are not here discussed. The interaction of strategic and economic factors (which themselves have many phases and complications) may be studied in every important detail in Richard Pares, *War and Trade in the West Indies, 1739–1763* (Oxford University Press, 1936).

terminology—between *colonies de peuplement* and *colonies d'exploitation* But this contrast can be stressed too much. In the first place, settlers' frontier and planters' frontier are not always sharply differentiated. In the South Africa whose early growth we have already examined, or in Georgia before Abolition, or in the Kenya of our own day, where wealth is the joint product of white capital and coloured labour, these two types of society merge into each other. In the second place, a sharper line of economic differentiation can sometimes be drawn between planters' frontier and traders' frontier. Consider the contrast between Great Britain's empire-building enterprises in India and in the West Indies. In the West Indies, British planters introduced a new crop, established it as a monoculture, and developed the soil for its intensive exploitation. But the East India Company left the pre-existing economy of India exactly as it found it. It was satisfied with the commercial exchange which the established economic order of India naturally supported. Critics of the Company actually found reason for complaining that its methods were fostering India's economic strength at the expense of Great Britain's. They complained that the Company was paying for the import of Indian manufactures by the export of British bullion, and thereby departing from the true principles of State policy Lancashire's victory over India's textiles was destined later on to reverse the flow of manufactures. And, as a sequel to this economic revolution, British capital and technique began in the nineteenth century to mould the Indian economy to meet the demand of British industrialists for raw materials like jute and cotton—to say nothing of the demand of British consumers for tea. It was in this manner, very late in the day, that the planters' frontier followed the traders' frontier into India.

M. Leroy-Beaulieu's terminology has been borrowed by many English writers; but it may be questioned whether the borrowing is wise; for translation begets confusion. 'Exploitation' as an English word has two meanings, a neutral economic meaning and a condemnatory moral meaning. There is in the first place an exploitation of natural resources, sometimes it is economically skilful and productive, sometimes it is economically unskilful and wasteful. It is not confined to the *colonies d'exploitation*, it takes place on the settlers' frontier no less than on the planters' frontier, in Australia as well as in Malaya. In the second place, there is the exploitation of human beings. This kind of exploitation has its economic aspect; but European thought for the past two centuries has emphasized the moral evil inherent in it. It, too, is not confined to the *colonies d'exploi-*

tation. It occurs on the traders' frontier, the settlers' frontier, the planters' frontier, and the investors' frontier. The historian of the economic expansion of Europe will go astray if he attempts to identify the evil of human exploitation with any single category of economic activity; rather does it represent—to borrow an idea from Aristotle's classification of constitutions—the perverted form of every category. Piracy and slave-trading are perversions of the traders' frontier; penal colonies are a perversion of the settlers' frontier; slave ownership and some forms of indentured labour are perversions of the planters' frontier. Adam Smith showed himself conscious of the historical importance of perversion when he qualified his picture of the 'natural' and good effects of commercial intercourse between the old world and the new world with an indignant denunciation of the actual cruelties and oppressions inflicted by Europeans upon the indigenous populations of America. *Raubwirtschaft* can take many forms. Welsh folk-songs which still survive from the Elizabethan age recall a time when ordinary people had not yet learnt to distinguish between the occupations of trader and pirate. Officials of the East India Company in the eighteenth century practised direct extortion. The West Indian economy built itself both upon the international slave-trade and local slave ownership. The South African pastoralists, by dispossessing the natives of their land, possessed themselves of native labour King Leopold established monopolies which laid waste both the Congo forests and the people who lived in them. It may be doubted whether any of these perversions of economic activity are in the long run profitable to the community. But the individuals and groups who profit from them are not interested in their long-term effects. The historian of European expansion must be prepared to meet them in every sphere of economic activity and in every age. He must be prepared to recognize and assess the economic consequences of the abuse of power.

The exploitation of human beings, it must be repeated, is not a separate economic category, but a perversion which occurs in every category. The economic characteristics of the planters' frontier, therefore, must not be confused with the fact that the labourers employed upon it have frequently been of servile or semi-servile status. Plantations are established in tropical or semi-tropical countries in order to satisfy the demand of an economic metropolis for specific raw materials or consumption goods. They represent the most obvious economic instrument for establishing a raw-material exporting economy in countries where indigenous popula-

tions have hitherto been content to satisfy their own primitive needs.[1]

The modern British Empire has discovered that there are other means of achieving this purpose. It can in certain circumstances be achieved without a direct disturbance of traditional proprietary rights. Generally speaking, in the contemporary British Empire, tea, sisal, and sugar are 'plantation crops'; but ground-nuts, cotton, and (increasingly) cocoa, are 'peasant crops'.[2] But the peasants of Nigeria or the Gold Coast or Uganda would not have been enabled and persuaded to redirect their economic energies, had not the metropolitan country, whether by private enterprise or government enterprise, made available to them some essential productive equipment. This productive equipment is in part material—railways and roads and motor transport, irrigation or drainage works, warehouses and harbours. In part—and this is being realized increasingly—the productive equipment is non-material—agricultural instruction, general education, health services, an improved diet. Both the material and the non-material equipment are proper objects of investment, and even in the short run they may yield no less a return than that more concentrated investment which has established in other colonies a limited number of plantation-units. The purely economic issue in the controversy between the respective champions of peasant culture and plantation culture is not one of ends (the economic demand is merely for a product) but of means. Which kind of investment will give the most effective return? Granted that a specific product is desired, will it pay better to equip a peasantry for its production or to establish plantations? The mere framing of these questions is proof that the planters' frontier is closely connected with our fourth type of economic expansion. It introduces us to the investors' frontier.

It may seem incongruous to speak of an investors' frontier: certainly, the presence of 'the City' and 'the saving classes of Great Britain' in the construction camps of the Uganda Railway or the diamond

[1] Holland, in the days of the Company, and, later, of the Culture System (roughly 1830–50) employed a different economic instrument. By the compulsory exaction of export produce from the natives of Netherlands India it secured, without planters, the objects of a plantation policy.

[2] *Per contra*, sugar is becoming increasingly a peasant crop among the Indians originally brought to Fiji as indentured labourers, whereas cotton in the Geyira district of the Sudan is peasant culture tempered by plantation method—or the reverse. In Africa, fire-cured tobacco is a native peasant crop, and flue-cured tobacco is still a plantation or white farmer's crop. For a general review of this subject see Lord Hailey's *African Survey* (London, 1939), ch. xx. For further discussion see Part II of this Volume.

fields of Kimberley is only a symbolical one! It may also seem confusing and unnecessary to ascribe to the investors their own special economic frontier. For investment has been an essential factor in every overseas economic enterprise from the very beginning; the provision of capital has conditioned every advance of the settlers' frontier and the traders' frontier and the planters' frontier. Nevertheless, as the South African example has demonstrated, there occurred during the nineteenth century a quickening of the pace of investment and an enlargement of its economic power to an extent which dwarfed every historical precedent 'Something new' really did happen. The development of the capital market, first in Great Britain and later in other European countries, made available for export on a gigantic scale the 'surplus' resources provided by Europe's agricultural and industrial revolutions.[1] These resources transformed primitive economic structures overseas and established new ones and bound them to 'the great society' which overspread continents and oceans The transformation through overseas investment of the metropolitan countries themselves was hardly less spectacular. Throughout the greater part of the eighteenth century, the economic structure of Great Britain still leant upon the support of Dutch lenders. By the year 1914 Great Britain had accumulated a claim on the outside world to the tune of nearly four thousand million pounds.[2] The City of London had taken shape as an infinitely complex yet integrated society, which was interwoven both with the possessing and governing class of English society and, in a different fashion, with economic society throughout the entire world.

A good deal of research still remains to be done upon the economic effects of overseas investment both in the metropolitan country and abroad. The few generalizations which follow all need to be checked and made more concrete by detailed economic and sociological

[1] It used to be said that the profits of foreign trade were the primary source of the funds for the industrial revolution at home which created the resources for investment abroad. 'The spoil of India and the colonies' first filled the reservoir of capital (see L H Jenks, *The Migration of British Capital to 1875*, Knopf, 1927, p 193) But 'it is beginning to be clear that it was the agricultural rather than the colonial wealth of England that was tapped for industrial development in the later eighteenth century' (R Pares, in *Economic History Review*, May 1937, p 129). Thereafter the industrial wealth was tapped for foreign investment.

[2] See *The Statist*, 14th February 1914, Supplement—*The Export of Capital and the Cost of Living*, by Sir George Paish. He estimates the amount of British capital invested abroad as £3,700,000,000 These figures are adopted, with some modifications, in *Europe the World's Banker, 1870–1914*, by Dr H Feis (Yale University Press, 1930), p. 23

investigation. Consider first the metropolitan country. It is clear that overseas investment underlined the transforming effects of the industrial revolution upon the country's class structure. Conservative England acquired the interests and psychological attitudes of a bond-holding class. Land, which once had been the foundation of economic power, social prestige, and political leadership, became in large measure merely the symbol of success in industry and of astuteness or luck in investment. But investment did something more than modify the class structure. It profoundly altered the basic economic conditions of the national existence. There may be some exaggeration in the industrialist's complaint that the investor has fostered competitive industry abroad. There may be an equal exaggeration in the investor's plea that he has made the industrialist's fortune by opening a path for exports. There remains beyond dispute one fact of outstanding significance for every section and class and individual in Great Britain—the claim upon overseas raw materials and food which past investment has established. In the latter part of the nineteenth century, while population was increasing at the rate of 10 per cent. in each decade, while the standard of living was rising and the productive efficiency of home farming was both comparatively and absolutely declining, Great Britain became increasingly dependent for mere livelihood upon the claims which she could establish or maintain upon overseas productive power. On the eve of the Great War, about 20 per cent. of her imports came to her as a return on the capital which a section of her people had invested abroad [1] In this fundamental manner the well-being and even the existence of all classes was interwoven with the financial power of a single privileged class. Did this mean that the entire British nation, including the labouring class, had some share in the special comforts of the *rentier*? Did the nation manifest the psychological dispositions appropriate to the *rentier*? How did its novel economic situation affect its political beliefs and activities? And precisely how had this novel situation come into being? What, for example, was the relation in cause and effect between the factors of population increase, investment abroad, the decline of agriculture at home, and the rise of living-standards at home? None of these questions can be confidently answered until a great deal more exact research has been done.[2]

[1] See Paish, op cit He relates British investment in the decade which began in 1905 almost entirely to the need of Great Britain for new supplies of food and raw materials, by examining in detail railway and developmental investment in Brazil, the United States, Russia, Australia, &c

[2] The chief phases of British overseas investment have at least been clarified by

The state of our knowledge is similar with regard to the effects of investment upon the capital-importing countries. Here we find plenty of emphatic and excited generalizations about 'imperialism'; but most of them are undiscriminating. Yet discrimination is badly needed. The only safe general statement about the investors' frontier, seen from the overseas point of view, is that it signifies interdependence and a linking of economic destiny between debtor and creditor communities. But this interdependence and linking may either take the form of mastery by the creditor country and dependence by the borrowing country, or it may take the form of equality. It may indeed be the ladder by which the borrowing country climbs to economic independence. By borrowing from Holland in the eighteenth century England did not make herself a dependency of Holland, nor did she in the nineteenth century, by investing in the United States and Japan, turn those two countries into dependencies of her own. It would be absurd to suggest that the United States and Japan were 'exploited' or 'enslaved' by their temporary membership of Great Britain's 'empire of investment'; this was a necessary phase of their historical progress towards economic and political empires of their own. But in the history of China or Persia or Turkey, foreign investment makes a very different chapter, and a gloomy one. The borrowing countries become dependent upon the lending countries, and not merely economically. The clashing frontiers of the nationally divided investing class tend to drag after them the clashing political frontiers. The story of the European money-lender in Turkey or Persia or China must be studied side by side with those more majestic chronicles which the diplomatic historians entitle 'The Partition of Turkey', 'The Partition of Persia', 'The Partition of China'[1] How is it that exactly similar action on the stock exchanges

Jenks, Paish, Hobson, Feis, and other writers Jenks has explained that until the last *quarter of the nineteenth century* investment was 'primary', i e supplied from the savings produced by British industry Thereafter it was 'secondary', i e although the capital sum continued to grow, its average annual growth was no greater than the income from past investment The phase since the Great War— might it be called 'tertiary'?—is examined in Chapter III, Section III, below.

[1] In a dispatch of 21st September 1899 (*British Documents on the Origin of the War*, ed Gooch and Temperley, vol iv, no 319) Lord Curzon, discussing Russian penetration in Persia, described in sonorous language the process by which economic action from outside may undermine state sovereignty 'Within the limits of a nominally existing sovereignty and independence, so many encroachments upon both these attributes are possible, that by almost imperceptible degrees they pass into the realm of constitutional fiction, where they may continue to provide an exercise for the speculations of the jurist, long after they have been contemptuously ignored by statesmen.'

of European cities should have such dissimilar effects in China and Japan? It may be that the explanation is as much political as economic. A politically stable country can borrow and spend according to its own responsible judgement and by exercise of its own control; a politically unstable country cannot get money unless it gives to the investors extraordinary guarantees for the safety and fruitfulness of their capital. Thus it buys credit by alienating rights of sovereignty—rights which are profitable, and which therefore tempt investors to make further inroads upon the borrowing country's sovereignty. This point may be illustrated by a contrast between the history of railway construction in China and Australia. When a politically weak China borrowed money for railway building in Manchuria, she virtually surrendered that province to foreign masters. When the stable self-governing Australian colonies embarked on railway construction, they surrendered to the English investor not very much more than the right to a fixed annual return on the money which he lent. Their own governments were quite competent to act as owners and managers, to decide where the railways were to run, and how they were to run.

This subject cannot at present be pursued any farther. But the contrast between China and Australia may serve to illustrate one essential characteristic of Great Britain's frontier of investment, namely, its ubiquity. The metaphorical empire of investment which that frontier enclosed was not a distinct territorial entity, nor did it correspond with the juridical entity known as the British Empire. It is true that from about 1875 onwards investors manifested an increasing tendency to lend to countries under the British flag, but this tendency never showed signs of becoming an exclusive one, and may besides be traced rather to changing conditions of economic opportunity than to political considerations. British investors continued on the whole to take all the world for their province. An expert calculated in 1914 that a sum of £1,779,995,000 was invested by Great Britain in the British Empire, and a sum of £1,934,666,000 outside it. British investors in 1914 held nearly £200,000,000 more of United States' securities than they held of Canadian, and they held in Argentina only £12,000,000 less than their £332,000,000 of Australian securities. In Brazil they had a larger financial stake than in New Zealand, and they stood to gain or lose more either in Mexico, or in Chile, or in Russia, than they did in the whole of West Africa. In short, the empire of investment showed a marked lack of concern with the political empire. It had undoubtedly

helped to make that empire, but it had helped to make so much else.[1]

Economic empire, we must repeat, is only empire by metaphor; it is 'informal empire'; sometimes it is even 'invisible empire'.[2] Its frontiers do not coincide with the frontiers of political allegiance We have already remarked on the small proportion of British trade which was contained within the British Empire.[3] What is true of investment and trade is true also of migration. Throughout the nineteenth century Great Britain's most popular frontier of settlement was under the Stars and Stripes. Between the battle of Waterloo and the battles of Gallipoli, Great Britain sent to the United States of America more than double the number of settlers which

[1] See Sir G Paish, in supplement to *The Statist*, 13th February 1913 The figures given for 'India and the Colonies' were classified thus

North America	
Canada and Newfoundland	£514,870,000
Australasia	
Australia	£332,112,000
New Zealand	£84,334,000
Africa	
South	£370,000,000
West	£37,000,000
Asia	
India and Ceylon	£378,776,000
Straits Settlements	£27,293,000
Hong Kong	£3,104,000
British North Borneo	£5,820,000
Other Colonies	£26,189,000
Total India and Colonies	£1,779,995,000

Of the larger figure of £1,934,666,000 invested outside the British Empire, the following separate items are worth noting

United States of America	£754,617,000
Argentina	£319,565,000
Brazil	£147,967,000
Mexico	£99,019,000
Chile	£61,019,000
Uruguay	£36,124,000
Peru	£34,173,000
Russia	£66,627,000
Egypt	£44,912,000
Spain	£19,057,000
Turkey	£18,696,000

According to the same authority, in the seven-year period 1907–13 Great Britain invested publicly £481,529,927 in India and the Colonies as against £645,901,202 in foreign countries The investment in the six Australian States (£50,000,000) was less than half the investment in Argentina (£118,000,000).

[2] The phrase is in Jenks, op cit, p 1

[3] See above, p 23.

she sent to all the territories under her own flag.[1] There arose a school of imperial zealots which lamented these facts, and welcomed with joy every tendency towards a concentration of Great Britain's investing and trading and population energies upon the areas marked red on the map. This volume will record the degree to which the desires of this school realized themselves during the generation after the Great War.[2] In the century preceding the Great War, the century in which the British Empire attained its most imposing strength, there was scant correlation between political sovereignty and economic energy, between the fixed frontiers of territorial possession and the moving frontiers of economic enterprise.

II

Economic Policy. 'Mercantilism' and the 'Great Commercial Republic'.

The contrast between the static political frontier and the dynamic economic frontier has reflected itself in two contrasted dispositions of thought and policy. Label-loving scholars have called these dispositions 'systems', and given them appropriate names. One of them is known generally as *Mercantilism*. The other, by a German perpetration, has been called *Smithianismus*. The first label we may as well accept. It is certainly not very scientific to regard as a single system those diverse economic doctrines which from the Middle Ages to the time of Adam Smith were evolving amidst clashes of interest, disputes about theory, and sharp minority protests. Nevertheless, there did exist throughout these centuries a general agreement among economic thinkers about the postulates from which their various economic reasonings started: there was, moreover, a vague popular

[1] Throughout the nineteenth century three successive authorities had the duty of compiling the figures of persons leaving Great Britain, and each authority used methods inadequate for a scientific study of emigration. Inadequate as they are, the figures probably give a generally correct picture of the direction of emigration. They show, from 1812 to 1914, an emigration from the British Isles as follows.

To the United States	13,593,376
To British North America	3,873,466
To Australia and New Zealand	2,207,367
To Cape Colony and Natal .	714,132

These figures have been obtained by adding the annual figures tabulated in Appendix A to W. A. Carrothers, *Emigration from the British Isles* (P. S. King, 1929).

With regard to the argument that much of the emigration to the United States might have been directed to Empire countries, it is pertinent to mention the leakage of population (not shown in these figures) from Canada to the United States. See below, pp. 166–7.

[2] See especially Chapter III.

orthodoxy held by the 'mercantilist man in the street'.[1] Apart from this justification, the effort of evading a word so well established as *Mercantilism* would hardly be worth while. But *Smithianismus*, mercifully, has never invaded English terminology. We can take our pick of half a dozen labels which purport to indicate the economic reasoning by which Adam Smith challenged the teaching of his predecessors. We can do better than that. We can use, instead of a label, the symbol which Adam Smith himself used to suggest the processes of economic specialization and exchange which united the nations in a reciprocally advantageous collaboration—the symbol of a *Great Commercial Republic* [2]

The thought of mercantilist writers and statesmen was hemmed in by their preoccupation with the political frontiers of sovereignty; the postulate most widely assumed among them was that economic policy ought to serve a non-economic end, the power of a unified State. Bacon (post-dating the event) ascribed to Henry VII the merit of bowing the ancient policy of the realm from consideration of plenty to consideration of power Many mercantilist writers were not ready to countenance so sharp an opposition. They would not admit that power and plenty were incompatible ends of policy; plenty, they argued, was itself a source of power. 'There is no situation in which Wealth is not Strength, and Commerce is not Wealth.'[3] This doctrine suited merchants when they were inclined to press their private interests under pretext of seeking the public good. It also suited governments, when they were astute enough to bait their power-policies with promises of profit.[4] Mercantilist programmes framed themselves in a state of tension and with frequent compromises between politicians and business-men. The power-plenty

[1] R Pares in *Economic History Review*, May 1937 Eli Heckscher (*Economic History Review*, November 1936, p 54) is willing to retain the word *mercantilism* 'as a convenient term for summarising a phase of economic policy and economic ideas'

[2] The phrase is used two or three times in the *Wealth of Nations*, and is implied throughout it Smith borrowed it from Quesnay, but whereas to the doctrinaire Quesnay the Great Commercial Republic was a perfectionist aspiration, a challenge of Nature to History, to Smith, the inductive thinker, it had a real existence in History—though it also suffered real and continuous frustrations there It is a better phrase than 'empire of commerce', which was used once or twice in the preceding section, for it suggests the ideally equal and reciprocal nature of commercial exchange

[3] William Burke's pamphlet of 1762, quoted by G L Beer, *British Colonial Policy 1754-1765*, p 148 Cf Sir Josiah Child's formula 'Foreign trade produces riches, riches power, power preserves our trade and religion ' 'Plenty', it should be remarked (and here modern writers may fall into error), acquired with some of the mercantilist writers an unfavourable connotation—e g 'a dead stock, called plenty'

[4] See J Viner in *Journal of Political Economy*, vol lxxxviii, p 451 There is frequent illustration in Pares, *War and Trade in the West Indies*.

argument ran in a circle, and different people entered and left the circle according to their own particular interests or preconceptions.

Let us first enter this circle of theoretical debate at the point where the Renaissance ruler entered it. He was the recipient of much printed advice. Sometimes the advice was pious, sometimes it was worldly-wise. Some writers, like Erasmus, told him how he ought to behave if he were to live up to his high calling as a Christian Prince; others, like Machiavelli, told him what he would have to do if he wished to save his skin and defend his dominion. The historian may justly conclude from the evidence that the latter counsellors were closer to the prince's ear than the former ones[1] Machiavelli's Prince is an individual person, living very dangerously, by survival and success this individual person achieves the dignity of embodiment in a de-personalized State. The naive and naked adolescent of the Italian Renaissance continues to grow until his matured limbs are ready for the dignified drapery of Sovereignty. The growth of theory keeps pace with this institutional growth. Machiavelli's unbearably frank precepts swell into an elaborate corpus of political lore, the published literature and the unpublished tradition of *raison d'état*. This literature, and the political experience which it faithfully records, grows increasingly complex and diversified as the simplicities of the Prince's action ramify into the complicated functioning of an integrated State.[2] Administration becomes the concern of specialized treatises. The same is true of foreign policy. And economic policy—which had no place at all in Machiavelli's thought[3]—also becomes in the course of time a special department of 'state-building'. Seen through the mercantilist statesman's eyes, economic policy is that branch of policy which provides the government with the wherewithal for its military and diplomatic struggles. Economic theory is merely a branch of the literature of *raison d'état*.

But economic policy must be seen through the merchant's eyes also. If some of the economic thinkers, like Sir Thomas Gresham, were concerned with government, more of them, like Thomas Mun, were busied in trade. To the majority of merchants high politics were a 'mystery'; their life was in the counting-house. No doubt they felt a patriotic zeal for the national power. But the experience

[1] See Lord Acton's introduction to Burd's edition of *Il Principe* (Oxford University Press, 1891)

[2] See the fundamental book of Friedrich Meinecke, *Die Idee der Staatsrason in der neueren Geschichte* (Leipzig).

[3] Machiavelli denied downright that wealth was the sinews of war. This was because of his preoccupation with the military basis of power, he would have emphatically preferred guns to butter

on which they based their thought was commercial experience. It was chiefly through their reflection upon this experience that economic theory developed until it grew into a science distinct from politics. By the time this happened, the age of mercantilism was over. We might call mercantilist economics political arithmetic, and nineteenth-century economics plain arithmetic. Mercantilism was a fusion or confusion of political and economic thought.

The business community and its literary spokesmen were slow in breaking free from the State's leading-strings. even their nineteenth-century emancipation, as we shall see, was provisional and insecure [1] The State could appeal to them as patriots; it could also dangle before them the almost irresistible bait of monopoly. Except for England's nineteenth-century interlude, the partnership of power-seeking ruler and wealth-pursuing merchant has remained, despite some tension, a persistent element in modern history. And the fundamental objectives of that partnership had already been defined in those medieval city-republics in which the merchants were themselves the rulers

Professor Heckscher discovers in these medieval communities the three basic psychological attitudes of men to economic goods, and the three distinct policies which have been the historical expression of these attitudes.[2] There is first of all a strictly commercial attitude to goods The merchant who handles them for a profit feels no direct concern about their production or consumption, about their origin or destination; his only concern is that they should pass through his hands so that he may earn a profit on the handling of them. He is anxious that goods should be brought to his city, but is not anxious to keep them there. He wants his city to be a *staple*. The *policy of staple* can be either passive or active· some medieval cities, like Bruges, were content if goods came to them in foreign shipping; but others, like Venice, sought wherever possible to dominate the carrying trade.

There is in the second place the consumer's attitude to goods. Heckscher calls it 'hunger for goods'. This was a natural attitude at a time when a town economy, dependent for sheer existence upon the importation of food, first arose. Haunted by the fear of insufficiency, the townsmen struggled to win direct control over the surrounding country and its agricultural supplies. Even cities which, like Venice, had risen to greatness by pursuing a staple policy, felt themselves compelled to pursue simultaneously a *policy of provision*.

[1] See Section IV of this chapter and Section V of Chapter III.
[2] Eli Heckscher, *Mercantilism* (translation London, Allen & Unwin, 1935), vol i.

The same policy was pursued on a national scale by medieval kingdoms, like the England of Edward III. It expressed itself in mechanisms for restricting export and fostering import.

But the home producer protests with increasing vehemence against the entry of foreign goods. He is obsessed by a 'fear of goods'. Too many goods, and in particular too many foreign goods, seem to him a threat to his own employment and livelihood. This, says Heckscher, is the natural attitude of the man in the street when money has thrown a veil over the operation of exchange. A sale is for money, and if the money is spent on the foreign-produced commodity, it cannot surely be spent on the home-produced commodity. The man in the street does not understand that imports are paid for by exports. His 'fear of goods' expresses itself in the *policy of protection*. This policy lay at the core of mercantilism In the later Middle Ages it dominated the economic policy of many cities,[1] it inspired the economic rhyming and pamphleteering of Yorkist and Tudor England. The policies of staple and provision never entirely disappeared from English minds,[2] but the policy of protection occupied the forefront of them from the fifteenth century until the nineteenth Economic thought concentrated itself on the problems of national protection and foreign markets. The great aim of economic policy was to buy from foreigners as little as possible and sell to foreigners as much as possible Success in achieving this aim, it was believed, would show itself in a 'favourable' balance of trade. It would also show itself in an inward flow of the precious metals. The policy was thought to have the merit of killing two birds with one stone—of stimulating national employment, and of accumulating wealth in the form of specie.

The monetary aspect of mercantilist policy illustrates once more the partnership between ruler and merchant, between the economic theory of the sovereign State and the economic theory of the bourgeois class The command of a reserve in specie, as the wiser Tudors and the Hohenzollerns knew, supported the power of a dynasty and the State. It could in time of crisis immediately procure the sinews of war. To the merchants, an accumulation of specie appeared a fundamental element in peace-time prosperity. The most intelligent mercantile thinkers emphasized the connexion between the precious

[1] See, e g, Pirenne, *Histoire de Belgique*, vol III Free-trading Antwerp was an exception among the Netherlands cities of the fifteenth century.

[2] Heckscher, *Mercantilism*, vol II, p 94 ' . . the ideas behind the policy of provision persisted in people's minds by the side of mercantilist ideas. In fact a kind of genetic relationship may almost be said to have existed between the policy of provision and *laissez-faire*, a relationship which simply passed over "mercantilism" '

metals and the price-level, and the effect of the price-level upon the production and exchange of goods. They did not identify money and wealth so crudely as Adam Smith's diatribes suggest. Smith, in his determination to make his contemporaries understand that wealth was a fluid thing, the constant stream of goods and services produced by labour, thrust aside too fiercely the importance of money. The fallacies which he chose to pillory were the cruder ones Mercantilist thinkers did nevertheless commonly envisage wealth, not as a flow of things, but as a heap of things, with the precious metals as a most important part of the heap. This habit of thought made it easier for princes to win the support of the business community in their wars, it even tempted merchants to take the initiative in demanding 'mercantilist wars'. For whereas the conception of wealth as a flow of things leads naturally to the idea of international collaboration for increasing the flow, the conception of wealth as a heap of things leads naturally to international struggle for the biggest share of the heap

So far we have considered mercantilist policy solely in relation to European sovereignties. But we are concerned particularly with the extension of this policy into the larger framework of an empire. In extending its range, it did not change its objectives The economic policies of the Spanish and Dutch and French and British empires were regarded as a reinforcement to the national economic policies of Spain and Holland and France and Great Britain. Empires were looked upon as valuable supports to the power of the states which fought with each other and manœuvred against each other in Europe. But did these states possess the means of mobilizing and controlling the power-resources of their dependencies? Their first difficulty was one of administrative control Even within their home territories, governments discovered repeatedly that they lacked the resources and the drive which were necessary if they were to take over direct responsibility for the economic ordering of society. Even Colbert was compelled to work through the guilds, and it needed the French Revolution to make in France an administrative unity co-terminous with French society. It was not to be expected that the arm of the State, too short even at home, would be able to stretch effectively across the oceans. Portugal attempted to run her empire by direct governmental control as a monopoly of the State, but she was unable to make the monopoly effective, even against the servants of the State. Spain soon gave up this attempt, and limited the government's function to a direct exercise of the administrative task and a close supervision of the private traders engaged in the economic

enterprise. But she was unable to make the supervision effective. The English government was more ready than any of its rivals to cut its coat according to its cloth. It backed overseas enterprise, but did not initiate it; instead of seeking the whole profit and shouldering the whole liability, it was ready to let 'adventurers' run the major risk while securing for itself a lien on the profits of their adventuring if it proved successful. It was even ready to delegate to these 'adventurers' responsibilities of government. The characteristic instrument of England's empire-building achievement was, therefore, the chartered company.[1] Adam Smith vehemently attacked this surrender of political responsibility. In principle he was right. But in the sixteenth and seventeenth centuries, when the surrender had been made, the English State simply did not possess the financial and administrative means of projecting its political framework symmetrically into the New World. By consenting to an extensive devolution of political power while safeguarding its formal sovereignty, it did for itself the best it could.[2]

It therefore felt all the more keenly the need for supporting its defective administrative control by effective economic control. According to the constitutional theory of the time, there was nothing anomalous or alarming in a Virginia whose immigrant inhabitants enjoyed the common-law rights of Englishmen and voted their own local taxes in their own assembly, but according to mercantilist theory, a Virginia trading freely with foreigners would in time 'produce an independence upon this Kingdom, mutual commerce being the strongest bond which will unite Virginia to this State'[3] On this issue there was an exact coincidence of opinion between those who approached economic theory from the political point of view and those who approached it from the commercial point of view. Both assumed that an empire was valuable because it extended the range of economic activity under national sovereignty, and thereby brought reinforcements to the drive for national self-sufficiency. The merchants and rulers of England had no difficulty in achieving an agreed statement of the principles to be embodied in an imperial economic code.

[1] See above, p 7, for the similarity in principle between the modern chartered company and the medieval *maone*, despite the progressive technical elaboration of the former

[2] Adam Smith wanted in India direct British administration and an open trade in place of company rule and monopoly For his programme of reform in America see p 45, below

[3] Pamphlet of 1623 by member of Virginia Company, quoted Beer, *Origins*, p 177 On the seventeenth-century constitutional position see this *Survey*, vol i, ch. i, sec ii.

The policies of provision, of staple, and of protection all found expression in this code. As time went on, the first of these policies tended to wither away; but it had some importance at the beginning. In the minds of colonizing enthusiasts like Hakluyt, it was allied in the most obvious way with the policy of power. Elizabethan England was anxious to make her supply of munitions independent of 'the favour of forraigne potency'. Hakluyt and his like believed that the colonies could provide England with saltpetre, timber, naval stores, potash, and cordage, which hitherto had been 'only obtainable at the curtesie of other Princes under the burthen of great Customs and heavy impositions'. In addition, there was the hope of gold. It was a sad disillusionment when Virginia's chief contribution to imperial strength turned out to be that 'vile weed', that 'poisonous drug', tobacco However, a theory of the imperial economy more complex than Hakluyt's was able to perceive virtue even in a tobacco-producing Virginia Not that Hakluyt's direct purposes were ever forgotten—persistent efforts were made even in the eighteenth century to substitute North America for the Baltic countries as the source of supply for England's naval stores But the idea became prevalent that the power of the State was served by an economic policy which would build 'a sort of reservoir of economic resources generally', no less than by the diversion of economic activity to the supply of particular commodities. The simplicities of the policy of provision were lost in the more complex economic plan.

The policy of staple always occupied a prominent place in the mercantilist plan. It survived until the time of Huskisson, after having been in continuous operation for more than two hundred years. James I, who hammered out the fundamental principles of imperial economic policy in negotiation with the Virginia and Bermudas companies, gave to these companies an almost complete monopoly of the English tobacco market in return for fiscal advantages and for their renunciation of direct access to the foreign market. This is the principle which embodied itself in the famous eighteenth section—the 'enumerated commodities' section—of the Navigation Act of 1660. This section made it illegal for any of the chief tropical commodities to be shipped anywhere except to England, Ireland,[1] or another English colony. The enactment made England in effect the sole entrepôt for distributing the products of her colonies.[2] An

[1] Mercantilist policy treated Ireland both as a colonial dependency and a rival European kingdom thus it was axiomatic that 'so great and near a Kingdom as Ireland' could not be allowed to share the advantages of the Staple Act and export direct to the colonies

[2] An amendment of 1676 cleared up ambiguities.

Act of 1673—it is called the Staple Act—applied the same principle to goods imported into the colonies It forbade the colonies to import direct from foreign countries; all their imports must come, not only in English ships, but direct from English ports. The preamble of the Act asserted, rather optimistically, that it was designed to create 'a greater correspondence and kindness' between the kingdom and its colonies; at the same time it avowed the more realistic purpose of 'keeping them in a further dependence upon it'.

The preamble to the Staple Act promised other benefits also· in particular, it promised to make more employment for English shipping and more markets for English manufacturers. At this point the policy of staple can be observed merging into the policy of protection. Protection also had its direct and obvious connexion with the pursuit of power. The connexion is at its clearest in the Navigation Acts, which have a history going back to the time of Richard II and a close connexion with the Elizabethan policy of promoting the fishing industry as a nursery of naval strength The national policy of sea-power expanded naturally and almost inevitably into the imperial policy of sea-power Newfoundland was a precious colonial addition to the home fisheries. And if patriotic militarists could accuse Virginia of producing smoke instead of munitions, the colony was able to retort that its trade employed a proportionately greater volume of English shipping than did the home trade or the foreign trade. It was the primary object of the Navigation Acts to support English shipping everywhere. They attacked the supremacy of the Dutch as general middlemen and carriers, and in addition excluded the Dutch and all other foreigners from the coastal trade of the British Isles and the carrying trade of the British Empire. Adam Smith, who found little to praise in any of Great Britain's mercantilist enactments, was willing at least to consider the Navigation Acts the best of a bad lot, because of the direct service which they rendered to national defence.

The protectionist idea did not, of course, exhaust itself with the Navigation Acts, it pervaded the whole of imperial economic policy. It had within it a core of insular nationalism; colonial production must not be allowed to compete within those spheres which the sovereign mother country had allocated to herself. With this reservation, mother country and colonies were considered as a single unity surrounded by a single system of economic defence. Buying within the empire was considered to be the same as buying 'at home'; the possession of colonies was judged desirable because it enabled the nation to reduce its purchases from the foreigner. It was also judged

desirable because it enabled the nation to increase its sales to the foreigner. The customs tariff was readjusted by means of generous drawbacks for the re-export of colonial products, and needy English governments were content to surrender revenue in order that the colonies might more effectively contribute to the imperial balance of trade. Such a contribution was the surest test of a colony's worth.[1]

There were good colonies and there were bad colonies. The West Indies, as we have seen already, were good colonies. Their production was complementary to, not competitive with, English production Their demand for manufactures stimulated English employment They fitted perfectly into the general pattern of English trade, for their demand for slaves made them the base of the triangle of oceanic navigation. They contributed largely to the customs revenue. They contributed to England's earnings as a staple, and to the imperial export surplus. Their virtues in almost every particular contrasted with the vices of the mainland colonies in the temperate zone These mainland colonies drained the realm of population. They failed to contribute anything to the mother country except a poor dribble of naval stores. They contributed no staple commodity for re-export. They consumed, during the first hundred years or more of their existence, fewer English manufactures than the West Indies consumed. They even needed to be disciplined lest they should begin to produce manufactures of their own To these negative failures was added a positive and glaring vice. They seemed determined to break out of the ring of imperial self-sufficiency. Having refused to make their economic life complementary to that of Great Britain, they seemed bent on adjusting it to the economic demands of territories beyond the jurisdiction of Great Britain. They were implicating themselves increasingly in an illegal and scandalous exchange with foreigners

A few intelligent observers realized that colonies like Massachusetts and Pennsylvania were not entirely devoid of economic merit. In provisioning Great Britain's West Indian possessions, these mainland settlements were performing, with the help of Ireland, a service which Great Britain herself did not really wish to perform and perhaps was unable to perform Moreover, as the eighteenth century advanced, the increase of population in the temperate latitudes of the American mainland opened the prospect of a demand for English

[1] On drawbacks see *Wealth of Nations*, Book IV, ch iv. According to Smith, they amounted 'to by much the largest part of the duty upon importation'. On some commodities, e g tobacco, the drawback equalled the whole of the duty paid on entering England.

manufactures which would far outstrip the demand of the British West Indies. But this potential contribution to imperial strength was outweighed, in the minds of most merchants and politicians, by the apparently wilful insubordination of the mainland colonies. 'All Colonies and foreign Plantations,' Sir Josiah Child had said, 'do endamage their Mother-Kingdom, whereof the Trades of such Plantations are not confined to the said Mother Kingdom by good Laws and severe Execution of these Laws.' New England and Pennsylvania persistently defied 'the good laws' of imperial sovereignty. They were not content to provision the British West Indies; they were provisioning the French West Indies also. Even in time of war they continued their trade with the enemy. This was worse than insubordination, it was treachery. The good West Indians shouted as loud as did the English in the chorus of outraged patriotism.

The first British Empire, the mercantilist Empire, had by the middle of the eighteenth century reached its breaking-point Englishmen simply did not understand the economic impossibilities which they were demanding of it. Lacking this understanding, they nourished a grievance They felt that they treated their colonies fairly Did they not defend them with England's fleets and armies? Was it not reasonable that the colonies should contribute part of the economic strength necessary to support those fleets and armies? If England asked them to accept some limitations upon their economic freedom, was she not willing to accept corresponding limitations upon her own? Had she not extinguished her own tobacco industry for the sake of theirs? And if by the staple policy she tied their trade to herself, did she not give them generous preferences in her own market? These protestations of injured innocence were not good enough because they lumped all the colonies together The benefits and burdens of imperial mercantilist policy were unequally distributed. It was easy enough for the British West Indians to be patriotic. Great Britain gave them a sheltered market for all the sugar which they could produce, and a price in that market which their French rivals could not command in Europe. That was why they were reluctant to have the French islands annexed into the Empire, even when annexation would increase the Empire's security and their own. There was self-interest even in their patriotic indignation against the New Englanders for trading outside the Empire, for it suited them that provisions in the sugar islands of their French rivals should be scarce and dear They were lucky; at every point the profession of imperial patriotism coincided with their own particular interest. But the situation of the northern mainland colonies

was just the opposite. They did indeed benefit from the shipping legislation, which almost invariably treated home and colonial shipping alike. But the commodities which they produced had no place on the preferential list. The sheltered British market gave security to the producers of Jamaica and Virginia, not to those of Pennsylvania and Massachusetts. These northerners produced surpluses for which the imperial market was too small. Ruin faced them unless they could find markets outside the Empire.[1]

The economic frontiers of America were out of scale with its political frontiers. That was the rock on which the first British Empire came to grief.[2] Sovereignty and economic growth were at war with each other. The same was true in all the empires In legal theory the Spanish Empire was a commercial monopoly of Spain in economic fact 'Spain was only the channel through which the manufacturers of the rest of Europe passed to her colonies'.[3] English and Dutch traders for the most part did not use this channel, but traded with the Spanish colonies directly and illegally. The small Dutch and Danish possessions in the West Indies were primarily illegal posterns into other people's empires.[4] The political frontiers of the French and English Empires cut through the natural area of economic collaboration which linked the West Indies to North America. Economic activity seeped through the political frontiers and undermined them. In the British Empire illegal initiative came from the mainland· in the French Empire it came from the islands. The French islands paid a heavy price for the mercantilist plan of self-sufficiency. Quebec was unable to provision them, French Africa

[1] Here are some items from the preferential tariff of 1660

Indigo	Foreign	3s	per lb ,	British colonial	1s	per lb.
Tobacco	,,	*6d*	,,	,, ,,	*2d*	,,
Cotton	,,	*4d*	,,	,, ,,	free	
Sugar (unrefined)	,,	*4s*	,,	,, ,,	*1s 6d.* per cwt	

The weightier mainland products were not shipped to Great Britain and received no preference On the other hand, the export duties on English food may perhaps be reckoned a benefit to the colonies which sold food to the British West Indies

[2] It was at the same time the rock of mercantilism and 'the rock of sovereignty', it was a dispute about economic policy and 'a dispute about status' See this *Survey*, vol i, chap i, sec. ii, for the constitutional aspect of the conflict.

[3] Pares, op. cit , p 1.

[4] Ibid , p 148 'Some people . . believed that Curaçao depended on the monopoly which it existed to break.' Cf p 350, discussing the relation of St Eustatius, Curaçao, and St Thomas to the British Empire 'As long as English sugar had a higher value in the world market than in England, it had been smuggled out by way of the Dutch and Danish Colonies, which still performed that service for the French planters Since they were no longer of much use in smuggling sugars out of the English Colonies, they had begun to smuggle them in . ' (so that they might be shipped as British sugars and enjoy the protected price in the British market)

was unable to meet their demand for slaves, the mother country claimed the handling of all their sugar, but could not absorb it all. When in addition France and Britain were at war and the British held command of the sea, they were dependent on foreign shipping. The French frontier in the West Indies was inevitably a leaky one; there was a leakage inwards of foreign provisions and slaves, and a leakage outwards of sugar direct to European markets. British North American shippers and merchants were active in breaking the laws both of the French Empire and of their own. If the British Empire had enlarged its market for temperate-zone products by annexing all the French sugar islands, people in Pennsylvania and Rhode Island might have been able for a time to perform their patriotic duty. But the planter-patriots of the British West Indies abhorred such a solution.[1] So the legally permitted market remained inelastic while the population of the American mainland was doubling every two decades and productive power was increasing correspondingly. Economic society on the American continent was dynamic, the policy of imperial self-sufficiency was static. The natural growth of American society inevitably burst through the rigid mercantilist framework of the first British Empire.[2]

The British might have been able to save their Empire if they had been able to change their theory of it.[3] Their traditional political arithmetic was a distorting lens which made it impossible for them to perceive fundamental facts of the American economy. In the very year of the Declaration of Independence, a more adequate theory of economic activity put a spot-light on American realities. If only the

[1] There was a cleavage of interest between planters and slavers, the latter desiring a larger British market, the former wishing to keep up protected British prices and therefore desiring not the annexation but the destruction of French plantations. Pares, op. cit.

[2] In view of the summary and emphatic treatment in the text of this great crisis, a short bibliographical note is perhaps due to the reader. Professor G. L. Beer thirty years ago revealed the ideally reciprocal nature of the British mercantilist imperial policy, thereby destroying for ever the notion of it as a quite gratuitous offence against Americans and against reason. Professor Alvord's work on western land problems and expansion supported Beer's work by revealing the reality of the Indian and defence problems and therefore the real need for unity of control, and a revenue. The tightening of imperial policy after 1763 was now seen to be not a brusque and irrational act, but an attempt to refurbish a system which had its own rational logic. However, the work of Professors Alvord, Abernethy, Becker, and Schlesinger has emphasized the impetus and the complicated diversity of American economic expansion, and emphasized by contrast the impossible rigidity of imperial mercantilism—even if it did have its logic. See, for example, Schlesinger's treatment of the currency and balance of payments problem.

[3] Not only their economic theory of it, but their juristic theory too, as has been shown in vol. i, ch. i, sec. ii, of this *Survey*.

Wealth of Nations had been published half a century earlier, the ideas in it might have ripened into policies consistent with the real interests of both England and America, and therefore with the unity of the Empire. Appearing when it did, Adam Smith's book was a protest against errors of policy which could not now be retrieved. The Americans had already presented the bill of costs.

Adam Smith's argument was not addressed particularly to the American question, but it is unrivalled even to-day for the clarity with which it illuminates that question. This illumination is not concentrated merely in that chapter of the fourth book which deals specifically with colonies; a penetrating understanding of New World economics reveals itself throughout the whole work, and repeatedly supports its general argument. Adam Smith's prophetic insight perceived 'The Significance of the Frontier in American History' more than a century before American scholarship retrospectively expounded it. 'The existence of an area of free land,' declared Professor Turner in 1893, 'its continuous recession, and the advance of American settlement westward, explain American development.'[1] Adam Smith had said practically the same thing in 1776, but his statement was more balanced, because it included also the political factor. 'Plenty of cheap land,' he declared, 'and liberty to manage their own affairs in their own way, seem to be the two great causes of the prosperity of new countries.'[2] He attributed the extraordinary increase in the wealth of the mainland colonies to the fact that the greater part of their capital had hitherto been employed in agriculture. He recognized and applauded the advance of American society into the hinterland. He understood the expansionist and dynamic character of the American economy and democracy.

Adam Smith's knowledge of America was limited, and sometimes he fell into error,[3] but he saw the fundamental realities which the makers of imperial policy failed to see. On the basis of his

[1] See above, p. 4

[2] It is worth while contrasting Adam Smith's sympathy with the untidy growth natural to new countries with Wakefield's dislike of it. Wakefield wished to transfer overseas the tidiness of English society. Cf. his tirade in the *Letter from Sydney* against the 'newness' of America: it culminates in his description of a 'new' people as 'a people who become rotten before they are ripe'. As regards North America, Australia, and New Zealand, Wakefield's view was wrong; it would have been more appropriate to South Africa, for reasons which will be apparent in Part II below.

[3] e.g. because of his enthusiasm for America's agricultural development he underestimates the harm done by the imperial veto on colonial manufacture. Professor Schlesinger relates the consequences of this veto with the currency and balance of payment problems.

observation he was able to propound a new type of imperial policy which, though it came too late to save the first British Empire, came soon enough to lay the foundations of the second. What gave him his understanding of America? It arose out of his insight into economic society at large. He was interested in things which were beneath the attention of portentous mercantilist statesmanship. His inquiries did not begin with their elaborate codes and mechanisms, but with the simplicities in the behaviour of ordinary individuals working for a living. He was interested in the 'very trifling manufacture' of pins, and observed that it was divided into eighteen distinct operations; he did not think it too commonplace to remark that there were no porters in small villages, he thought it significant that the common people in Oxfordshire burnt wood and coal together in their domestic fire-places; and he contrasted the poor Highland woman who bore twenty children with the fine pampered lady who was 'often incapable of bearing any, and generally exhausted by two or three'. His challenge to mercantilist doctrine was not contained merely in his merciless exposure of its monetary fallacies or his frontal attack on its theory of the balance of trade Still more fundamental was the challenge implicit everywhere in his selection of relevant economic phenomena. Mercantilism had never ceased to be 'the economic theory of the sovereign State'. Adam Smith perceived that its narrow field of study could not yield even so much knowledge as the sovereign State itself needed for the proper understanding of its own interests. He dramatically enlarged the field of study. He revealed the practical and theoretical importance of economic history as distinct from political history. He saw the dynamic nature of individual activities which lay altogether outside the field of politics. And he perceived that these activities were part of a network which spread across the political frontiers The economic society which he described was not co-extensive with this sovereignty or that. It was 'The Great Commercial Republic'.

It is for the historian of economic doctrine to discuss Smith's debt to his predecessors—to the 'enlightened' mercantilists, the physiocrats, and the natural-right philosophers. His debt to the last named is obvious. Like them, he was disposed to find the 'rational' in the 'natural', as opposed to the artificial and oppressive order of government. Like them, he tended to think in terms of society *versus* the State. A favourite phrase throughout his book is 'natural and free'. Society in its 'natural and free' state will develop harmoniously if governments will only allow it to do so. At the beginning of the long chain of activities which create wealth, Adam Smith, sees, not the

action of governments, but 'the natural propensity of mankind'. It is the natural propensity of mankind 'to truck, exchange and barter one thing for another'. Exchange, as it develops, necessitates money. More fundamentally it necessitates the division of labour. The division of labour is limited by the extent of the market. The larger the market, the larger the possibilities of specialization and, therefore, of wealth . In a few concise chapters Adam Smith has portrayed an *expansionist* society. He has shown the naturalness, and therefore the reasonableness, of its growing inner articulation and its outward extension. It is not surprising that he saw so clearly the significance of the advancing frontier in America. He had already seen the significance of the extension of the European frontier to America—new commodities, new divisions of labour, new commercial opportunity. 'By opening a new and inexhaustible market to all the commodities of Europe, it gave occasion to new divisions of labour and improvements of art, which, in the narrow circle of ancient commerce, could never have taken place.'[1] Viewed like this, the colonization of America was not the extension of the Spanish State, or the French State, or the English State; it was the expansion of Europe But the statesmen and merchants of eighteenth-century Spain and France and England were not accustomed to view economic expansion in that way, any more than were their predecessors in thirteenth-century Venice and Genoa and Pisa

Adam Smith argued that they were making a mistake. He knew well enough that his own picture of a rational economic society was not the whole truth. He was aware that political reality impinged incessantly upon economic reality But this was no excuse for denying the existence of the latter, or misconceiving its nature Some of the frustrations which hindered the attempts of individuals and nations to better their condition were unavoidable, but some of them were avoidable. As a patriot, Adam Smith was willing to concede that defence was more important than opulence, and on this ground to excuse the navigation policy. In a spirit of resignation he accepted the violence and injustice of rulers as 'an ancient evil, for which, I am afraid, the nature of human affairs can scarce admit of a remedy'. But he believed that there was a remedy for the economic fallacies of rulers. High politics did not fall within his province; but the follies of economic doctrine, propounded by interested parties, did fall within it. '. . The mean rapacity, the monopolizing spirit of merchants, who neither are, nor ought to be, the rulers of mankind, though it cannot perhaps be corrected, may very easily be prevented

[1] *Wealth of Nations*, Bk IV, ch. i.

from disturbing the tranquillity of anybody but themselves.'[1] In Smith's view, many of the most flagrant mistakes in commercial and imperial policy were occasioned, not by the inevitable impingement of the political order upon the economic order, but by the success of sectional interests in winning political backing for economic policies inconsistent with the real interest of the community. If Adam Smith could prove this, he might with reason believe that he had done something practical to narrow the gap between actual policy and rational policy.

So he set himself to the task of exposing the fallacies of the mercantile system. He ridiculed it for the futility of the means which it employed. All the sanguinary laws of Spain and Portugal had not been able to keep their gold and silver at home, and England's attempt to manipulate her foreign trade in order to secure a balance in specie was a pretentious irrelevance. The means were futile because the end was irrational. 'The great wheel of circulation is altogether different from the objects which are circulated by it.' Money was not wealth, but goods were wealth; money necessarily ran after goods, but goods did not necessarily run after money. Adam Smith's belittling of the significance of money became too vehement. But it was a vehemence which was determined to destroy a real and flagrant error, and to reveal the fundamental truth about the wealth of nations. Wealth was the flow of all the products which came unceasingly from human labour. It was the creation of men performing their special tasks and supplying their particular insufficiencies by reciprocal exchange with their fellows. The way to wealth was not beggar-my-neighbour, but co-operation. This was true for individuals, true for households, true for great kingdoms. 'A nation that would enrich itself by foreign trade, is certainly most likely to do so, when its neighbours are all rich, industrious, and commercial nations.'[2]

Adam Smith was now ready for his final assault upon the monopoly which was destroying the British Empire. He had established principles which enabled him to construct in outline a 'balance sheet of imperialism'.[3] Did imperial expansion and dominion pay? The

[1] Op. cit., Bk. IV, ch. iii. Cf. Bk. I, ch. x, 'The clamour and sophistry of merchants easily persuade them (i.e. the uninstructed rulers of the nation) that the private interest of a part, and a subordinate part of the society, is the general interest of the whole.' And in Bk. I, ch. xi, he makes clear his opinion that the receivers of profit are an exception to his general principle that men seeking their private interest are led by 'an invisible hand' to seek at the same time the interest of society.

[2] Op. cit., Bk. IV, ch. ii.

[3] Op. cit., Bk. IV, ch. vii. The quoted phrase recalls the study of a contemporary American author—*Balance Sheets of Imperialism*, by Grover Clark.

expansion of economic frontiers certainly paid. European enterprise in America had contributed dramatically to the wealth of nations. But the policy of governments had diminished the value of this contribution. In some instances it had entirely annihilated it. The balance sheet of Spain showed a loss. Whereas Spain had not been able to prevent the spread of the natural good effects of colonial enterprise throughout Europe—for example, among German linen-makers and Hamburg merchants—she had concentrated upon her own head the evil effects of her restrictionist policy. British policy had been less grasping than Spanish Great Britain had demanded from her American colonies no real financial tribute or military contribution. The colonies had been a military liability to her But Great Britain believed that she recouped herself through trade monopoly. 'The monopoly is the principal badge of their dependency, and it is the sole fruit which has hitherto been garnered from that dependency.' Adam Smith argued that the fruit was positively harmful. He did not deny that England, by tying the colonial trade to herself, secured a relative advantage over other European nations. But to secure this relative advantage she had inflicted upon herself a direct loss. She would have procured her colonial imports more cheaply if she had not been bent on making them dearer for others, the value of her total trade would have been larger if she had not unwisely distorted her economy in the attempt to monopolize the colonial trade [1] Her imperial policy had not been so vicious as to obliterate the advantages accruing to her from the expansion of economic frontiers, but it was nevertheless perverted by fallacies and sectional interests which were damaging to England herself, to her dependencies, and to the Great Commercial Republic. 'To promote the interests of one little order of men in one country,' declared Adam Smith, 'it hurts the interests of all men of all other orders in that country, and of all men in all countries.'

When he turned from the diagnosis to the remedy, Adam Smith brought to the support of his economic insight his faith in freedom. It would be better for the British if they minded their own business and permitted the Americans to mind theirs. It would pay them—and not merely in a material sense—to recognize American independence, if the Americans were bent on securing it. By doing this, they would secure an advantageous treaty of commerce, and would

[1] This argument was prepared by the elaborate discussion in Bk II, which classified the comparative returns on different employments of capital—putting agriculture before industry and commerce in the natural development of enterprise, and putting the home trade before foreign trade and the carrying trade The classification contains frequent relics of physiocratic theory, and is in parts untenable.

exchange turbulent and factious subjects for faithful, affectionate, and loyal allies. Great Britain and her American offspring would thus become bound to each other as mother cities and colonies had been bound to each other in ancient Greece—'the same sort of parental affection on the one side, and filial respect on the other'. The sovereign Empire would thus transform itself into an alliance (he might almost have called it a Commonwealth) of free nations. . . . But, to eighteenth-century minds, sovereignty was sacrosanct. Adam Smith knew this. So he produced an alternative plan, which would make imperial sovereignty compatible with colonial freedom. It was a larger plan of imperial union than the mercantilists had ever conceived—not the union of sovereign and dependencies, not the unity of monopoly, not the uninspiring bargain of trade and defence, but something which would win a response from American ideas of justice and self-respect, something which would enlarge American minds—and British ones. The plan which he propounded was the incorporation of the Americans in the Empire as equals. 'The constitution,' he exclaimed in the rush of his enthusiasm, 'would be completed by it, and seems to be imperfect without it.'

Opposuit natura. So at least men believed. But even if physical nature did veto the federative solution of the American problem, it did not veto the alliance solution. It was not physical nature, but eighteenth-century human nature, which caused the violent disruption of the first British Empire. Adam Smith knew that his contemporaries were too imprisoned by petty interests and prejudices to strike out along a new path of freedom and greatness. 'No nation ever voluntarily gave up the dominion of any province,' he reflected, 'how troublesome soever it might be to govern it, and how small howsoever the revenue which it afforded . Such sacrifices, though they might frequently be agreeable to the interest, are always mortifying to the pride of every nation; and what is perhaps of still greater consequence, they are always contrary to the private interest of the governing part of it ' The English broke their first Empire because their minds were too small for its increasing greatness

And yet, within a century, they were voluntarily giving up dominion in the provinces of their second Empire, they were surrendering the formal unity of imperial sovereignty and thereby creating the living unity of a freely associated Commonwealth of Nations. They were learning to treat the Dominions as Adam Smith had wished them to treat America. They were following both in the economic and political sphere his precepts of freedom. It seems like

a change of heart and mind, a 'conversion'. How did it come to pass ?[1]

Adam Smith's liberating reason was attuned to the needs and impulses of the new age which was struggling to be born in Great Britain. His teachings when he first published them were ahead of the times, but they were inescapably relevant to the times which were rapidly emerging. The nation showed itself willing to adopt them only when the pressure of new necessities and the lure of new opportunities demonstrated their immediate validity. Parliament's first reaction to the American disaster was an obstinate reassertion of the policies which had caused it. It insisted on trying to push and press the remnants of empire into the shape of the old imperial plan. Pitt and Shelburne would have been willing to leave intact all the economic links between the American continent and the British West Indies, but their sane liberalism was overborne by the obstinacy of vulgar patriotism and the greed of the shipping interest. The Americans had chosen to make themselves foreigners. Let them be treated as foreigners. Let their shipping, if not their goods, be excluded from territories under the British flag. Let monopoly be maintained intact. . . . But the monopoly could not be maintained intact. Adam Smith had established as a general proposition the advantages of exchange. The particular needs of Great Britain soon made her dependent upon exchange for mere livelihood. She had to find outside her Empire purchasers who would provide her with the means of feeding her increasing industrial population. Sheer necessity forced her along a path which offered her opportunities of wealth and greatness such as no European nation had ever before enjoyed. The industrial revolution gave her a flying start on all her neighbours. British industry and commerce and finance could now have for the asking an 'informal Empire' far wider than the formal Empire which Great Britain has lost, or any which she could hope to gain. If Great Britain chose to identify her interests with those of the Great Commercial Republic—and what other choice had she ?—she could make herself its metropolis.

Her choice made itself manifest, not in a self-conscious and single act of will, but in a long-continuing bend of policy which at first she followed reluctantly and slowly. During the French wars and the ensuing decade, her New World policy was temporizing. She was content to find new outlets for her manufactures by hastening the

[1] The movement in political thought and constitutional practice has been already traced in vol. i of this *Survey*: economic thought and practice are the concern of this section.

disintegration of Spain's imperial frontier and by permitting traders to make emergency entrances and exits in her own.[1] It was not until the eighteen-twenties that she began consciously and emphatically to turn her back on her own imperial past. It was Huskisson who guided her towards her future. 'England,' he declared, 'cannot afford to be little' He was thinking of the opportunities which awaited his country in the Great Commercial Republic. Like Smith, he was both patriot and internationalist, like Smith, he was willing to move towards his end with 'reserve and circumspection'.[2] He had the courage to challenge vested interests, he had the courage also to withstand impatient doctrinaires. He was willing to throw away the blunted weapon of differential duties against foreign shipping in order to secure corresponding equality of treatment for British shipping, but he maintained for British ships both the 'long haul' from foreign countries and the monopoly of intra-imperial transport. He was determined to reduce duties which clogged efficiency in the 'petted' industries or imposed undue burdens on their less-favoured neighbours; but his aim was to reform, not to abolish, the national protectionist system.[3] He surrendered the imperial staple policy: by permitting the colonies to trade direct with the outer world, he liberated them from their status as commercial appendages to Great Britain. But he did not surrender British control of colonial tariffs, which was made effective through the Possessions Acts. Nor did he renounce the principle of reciprocal British and colonial differentiation against foreign goods. Imperial preference was the centre of his policy.

Imperial preference survived for another generation. English conservatives of our own day sometimes seem to believe that this halcyon Huskisson age might have endured for ever, had it not been for the lamentable errors of Richard Cobden and his unfortunate gifts of persuasion[4] A close study of the forces which were operating during the eighteen-forties proves that this belief is an illusion.[5] It

[1] The reference is to the policy of multiplying free ports, of which there is an account in H T Manning, *British Colonial Government after the American Revolution* (Yale University Press, 1933), pp. 273 ff

[2] See A. Brady, *Huskisson A Study of Imperial Statesmanship* (Oxford, 1929).

[3] 'He thus followed pretty much the rules of the Dutch Water Administration', says List—i e he lowered only those barriers which were no longer serviceable See *The National System of Political Economy*, Bk. IV, ch xxxiii The impatient M'Culloch and Ricardo made from their different point of view exactly the same criticism as List made

[4] See, e g, L. S. Amery, *The Forward View* (Geoffrey Bles, 1935), pp 76 ff.

[5] See W. P. Morrell, *British Colonial Policy in the Age of Peel and Russell* (Clarendon Press, Oxford, 1930), ch. viii and ch. x.

was not merely the vehemence of the liberal attack which demolished the citadel of imperial preference; there was no passionate single-minded conservative defence. *The Times* hopefully preached an imperial *Zollverein,* but Disraeli voted against increasing the preference on Canadian corn. It was Great Britain's insular protectionism that the conservatives were defending, their imperial arguments were for the most part rhetoric which aimed at ennobling their own cause and disparaging that of their opponents This did not abash the free-traders. They were not primarily concerned with the system of imperial preference; but it was an outwork or screen of the national protection which they were determined to destroy; moreover, its benefits were in their eyes 'delusive', and its burdens real They were determined to break it down. But what about colonial opinion? The swelling river of colonial autonomy was sweeping everything into its channel. While the system of preference still survived, Canadians would resist reductions in it to their disadvantage, and Australians would bicker for equality of privilege with Canadians; but neither Canadians nor Australians intended to acquiesce for long in British regulation of their commercial policies. They were determined to mould their own economies, and the time was near when this moulding would mean the erection of colonial barriers against British exports. Thus, from whatever angle it is examined, the system which Peel inherited from Huskisson is seen to be an unstable one. For a few years it seemed that Peel, like Huskisson before him, was rationalizing that system in order to preserve it, but in reality 'it was belief in freer trade, not belief in an Imperial Zollverein', that supplied the impetus of his reforms.[1] They led inevitably to the repeal of the Corn Laws and thereafter to the repeal of the Navigation Acts.

But a British Empire united on the principle of free trade never came into existence. It was not until 1860 that the last vestiges of the old imperial preference were swept away. In 1859 Canada had already with defiant explicitness affirmed her resolution to protect her young national industry against England's established manufacturing power. In 1897 protectionist Canada initiated a new system of imperial preference, one which could only complete itself when Great Britain recanted her free-trade convictions. The story of Great Britain's half-hearted, indecisive retreat from the Great Commercial Republic into the shell of her own Empire is told in a later section.[2] The three dates which are given here indicate how brief

[1] Morrell, op. cit., p. 199.

[2] See below, Chapter I, sections iv and v; Chapter II; Chapter III, sections iii and iv.

the period was during which the principles of Adam Smith prevailed without any serious challenge. They never really prevailed throughout the Empire as a whole. The British liberals of the eighteen-forties and fifties had envisaged a free-trade Empire in a free-trade world. Instead, there came into being an Empire which in economic belief and policy was divided by two contrary allegiances. In Great Britain, and the dependent territories whose policy she decided, the allegiance was to Adam Smith's teaching. In the self-governing part of the Empire, among the 'autonomous nations' of the emerging Commonwealth, a new mercantilist allegiance was in the ascendant. And the allegiance which had conquered in the Dominions was preparing the reconquest of Great Britain.

Nevertheless, the episode of free trade, fleeting and fragmentary though it was, imprinted upon the British Empire a stamp which even yet, despite some partial erasures and over-scorings, may prove itself enduring. Great Britain's mid-nineteenth-century rejection of mercantilism compelled her to restate the principles upon which the self-governing members of the Empire remained in communion with each other. Now that they were no longer held together within a network of commercial discrimination against foreigners, could anything hold them together? Gladstone acclaimed a new imperial unity which would be strengthened by the loosening of commercial restriction—a unity 'founded upon a larger and firmer basis . . . upon common traditions of the past and hopes of the future—upon resemblances in origin, in laws, and in manners—in what inwardly binds men and communities together' Great Britain's renunciation of her mercantilist Empire liberated the philosophy of the Commonwealth, and revealed the deep impulses which would gather spontaneously to support it.

Great Britain's rejection of mercantilism compelled her also to restate the principles upon which the imperial community, or that part of it whose policy she herself directly fashioned, must live within the wider society of nations. Hitherto the history of empires had been a record of conflicting sovereignties, the new imperial theory, in its external no less than its internal application, drew much of the sting from sovereignty. It did not abolish political frontiers, but by refusing to reinforce them with economic barriers it diminished their importance It showed a way by which empires in the future, unlike all empires of the past, could dissolve without disintegrating—by bringing themselves into a wider world order. It drained dry of monopolistic economic content the operation of painting the map red. . . . Provided, of course, that this new imperial theory was resolutely

followed as a principle of life and action, and not hypocritically professed. . . .

It was Joseph Chamberlain, of all people, who most emphatically and proudly enunciated Great Britain's rejection of privileged imperial ownership. The British, he declared, were not like other nations, in all their annexations they sought no special commercial advantage for themselves, but regarded themselves as 'trustees for civilization for the commerce of the world' Trusteeship was a metaphor which had a future, it would express itself later on in the mandates system The idea of non-discrimination, expressed in a different metaphor, had already in the closing decades of the nineteenth century projected itself beyond the British Empire into the structure of international relationships Throughout a large part of Asia and Africa sovereignty had been shorn of its customary economic exclusiveness by treaties which promised an 'open door', or equal opportunity for the traders of all nations.

The open-door treaties were of two kinds Some of them had been signed between stronger and weaker nations, limiting the tariff autonomy of the latter and forbidding them to discriminate in favour of the traders of any single country Great Britain and other powerful states at one time or another imposed treaties of this kind upon China, Japan, Turkey, Morocco, and many other weak communities in Asia and North Africa. These treaties proved themselves to be unstable They represented an impermanent balance of force, and they provoked the inevitable moral protest which follows the one-sided use of force, even when it is used for a rational purpose. The weaker countries hated them because they were 'unequal' treaties. Some of these weaker countries have made themselves strong enough to break the fiscal fetters imposed upon them ; others have been absorbed into the economic system of a powerful neighbour [1] Both these processes have occurred by stages and amidst conflicts which often are still far from being resolved, but the precariousness of this part of the 'open-door' system has long been apparent.

There was, however, a second method by which the 'open door' principle projected itself beyond national and imperial decision into international convention. The European powers by agreement with each other began to limit their sovereign rights of discrimination. Among themselves, as will be explained in a later section, they built up a network of most-favoured-nation agreements which committed

[1] *Contrast the present position of three Asiatic signatories of open-door treaties—* Japan, Korea, and China two decided destinies, and one still undecided.

them, not indeed to low tariffs, but to impartial tariffs. In the management of their colonial dependencies they accepted far more extensive limitations upon their sovereign powers—limitations which 'created a measure of European solidarity in the colonial world'[1] Their new purpose first expressed itself on a large scale in the Berlin Congress of 1885, which mapped in Africa the large open-door area known as the conventional basin of the Congo.[2] Within the next twenty years the method was on various occasions applied elsewhere in Africa, and also in the Pacific Ocean.[3] Experience gained in the Congo area proved that the stipulation of a maximum tariff and of equal opportunity for all trading nations was not by itself sufficient to prevent both a monopoly by the governing authority and exploitation of the indigenous inhabitants. A more precise definition of monopolistic discrimination, and means for guarding against it, were also necessary But it was the inadequacy of the means employed, not the invalidity of the end professed, which the Congo scandals demonstrated. The moral to be drawn was that the end must be pursued more realistically. This the Peace Conference of 1919 attempted to do when it instituted the mandates system.

The mandates system has two sides. It professes the principle that imperial nations are 'trustees of civilization for the commerce of the world'. It also professes the principle that imperial nations are trustees for the weaker peoples who are as yet unable to stand on their own feet in the strenuous conditions of the modern world. The present section has shown the ancestry of the first principle in the precepts of Adam Smith and the nineteenth-century practice of Great Britain. The ancestry of the second principle will be sketched in the section which follows.

[1] Maurice Beaumont, *L'Essor industriel et l'Impérialisme* (Paris, 1937), p 99

[2] Including the *whole* of the Belgian Congo, Uganda, Kenya, Nyasaland, Tanganyika, and *parts* of French Equatorial Africa, the Sudan, Abyssinia, Italian Somaliland, Northern Rhodesia, Portuguese East Africa

[3] e g (i) Dahomey, Ivory Coast, Gold Coast, Nigeria, and all territory north and south of Lake Chad to 5 N and to the Nile By the Anglo-French agreement of 1898, the British gave open-door treatment to all nations, the French to those with whom they had most-favoured-nation agreements The duration was for thirty years, but no change has been made since 1928

(ii) Samoa, under the Anglo-German-American agreement of 1899. (No time limit)

(iii) New Hebrides, under the Anglo-French Condominium treaty of 1906

(iv) French and Spanish zones in Morocco, and the international zone of Tangier, by the Act of Algeciras 1907 (Abrogated as regards Germany by the Treaty of Versailles)

III

The Missionaries' Frontier

What has Christian evangelism to do with economic policy? Their connexion illustrates a larger paradox. The increasing concentration of scholars upon the economic content of history has induced an increasing scepticism about the economic interpretation of history. It was above all the economic or materialist conception of history which goaded historians into the systematic study of economic phenomena; systematic study has convinced them that economic phenomena are saturated with impulses, processes, and effects which are non-economic. The reaction towards a non-economic interpretation has sometimes been extreme. 'Religion and the Rise of Capitalism,' for example, has become an over-worked theme [1] But religion and the rise of empire is a theme which may still be profitably developed. We have already made ourselves aware of its importance in South African history.[2] The missionaries in South Africa were in the van of the advancing European frontier. Before the *Voortrekkers* set out on their protesting exodus from Cape Colony, Huguenot missionaries were already established in Basutoland.[3] And at every stage of the long road north to the Zambesi, the missionaries were ahead of the trekking pastoralists. Moreover, missionary propaganda was itself one of the causes of the Great Trek. It so impressed itself upon legislation and policy that the Boers became convinced that Cape Colony was false to the doctrine of human inequality which formed the core of their religious and social creed The conflict of principle between 'Cape liberalism' and the *Voortrekker* communities (a conflict which is still being fought within the Union of South Africa) did not, except as a rare afterthought, define itself in terms of economic policy It expressed itself in affirmations of religious and racial conviction—universal Christianity against tribal Christianity, the New Testament against the Old Testament, human equality against racial aristocracy, 'assimilation' against 'segregation'. Yet these non-economic affirmations had economic implications of profound importance. To understand them, it is only necessary to contrast the internal economic barriers which a caste society seeks to perpetuate and the throwing down of barriers which Adam Smith

[1] See P C G Walker, 'Capitalism and the Reformation', in *Economic History Review*, November 1937

[2] See above, pp 13–14

[3] See V. Ellenberger, *A Century of Mission Work in Basutoland* (1833 1933), trans. from the French by E M Ellenberger (Morija Sesuto Book Depot, 1938) Wesleyan missionaries arrived in Basutoland a few months after the Huguenots

envisaged as the destiny of a 'healthy and free' society. The most clear-minded of the missionaries did in explicit terms declare war against caste. 'I hope the day will arrive,' cried Dr. Philip, 'when Hottentot institutions will be unknown in the Colony, and unnecessary, when the magical power of caste will be broken, and all classes of the inhabitants blended into one community.'[1]

Elsewhere in Africa the missionaries had an easier task; there were vast regions in the tropics where they were able to preach their gospel of human solidarity without challenging the tribal solidarity of colonizing Europeans. It is in these tropical regions that their gospel has taken political shape in the professed policy of 'trusteeship'. Nevertheless, it is in the temperate regions, where the missionary gospel had to encounter bitter opposition and endure frequent defeat, that it achieved its sharpest definition and thereby contributed most challengingly to the evolving theory of the British Commonwealth. And it is in the temperate regions that the conflict of professions and practices within the Commonwealth is most vividly illuminated. The example of South Africa will be considered at length in Part II of this volume. Here it will be more profitable to examine a simpler example. The racial pattern of New Zealand is a far simpler one than that of South Africa; the record of missionary policy in New Zealand is an easier one to read.[2]

It was the trading frontier of European civilization which first reached New Zealand. In 1794 the *Fancy* dropped anchor in the Bay of Islands and returned thence to Sydney with a cargo of timber and flax; by the end of the eighteenth century the Bay of Islands was an established refreshment station for whalers and sealers, and a busy centre of trade. On the Maori side there was a demand for clothing and alcohol and tobacco, for muskets, powder and ball, for axes and spades and fishhooks, and all the iron tools which could replace the neolithic implements of native fashioning. On the European side there was a demand for timber and flax, potatoes and pigs, concubines and dried human heads. There was no serious Maori resistance to the advancing traders' frontier, because it signified new wealth. But it signified also disaster to Maori life through disease, and the unprecedented carnage which the new weapons added to the old tribal wars. European civilization showed in its first coming to New Zealand its most reckless and ruthless face.

[1] Quoted by W. M. Macmillan in *Bantu, Boer and Briton* (Faber & Gwyer, 1929), p. 172.

[2] I wish at the outset to express my gratitude to Mr. H. G. Miller, of Wellington, N.Z. He read and criticized drastically the first draft of this section. For any errors of fact or interpretation which remain I have only myself to blame.

It showed a different face when the first missionary settlement, the product of Samuel Marsden's persistence, established itself in 1814 on the shores of the Bay of Islands. As if to make amends for their later coming, the spiritual representatives of European civilization proved themselves more venturesome than its commercial representatives. The traders after all saw no need to venture into the interior to pursue trade, which by a spontaneous flow came to their stores on the coast. But the missionaries in their pursuit of souls attacked the wilderness Their evangelizing journeys opened the interior of the North Island to European knowledge. How did the Maori receive the Christian gospel? Almost as gladly, it seemed, as they received the weapons of Christian men. The missionaries themselves were no laggards, but their ardent converts raced in front of them to spread the Christian gospel The story is told of a missionary who, far from his home station, encountered an unknown tribe. He gathered the tribe for a first reading of the Anglican service The gathering, to his astonishment, devoutly interjected the proper Anglican responses

The spiritual representatives of Europe found themselves compelled to define their attitude towards the other manifestations of European expansion. They were enthusiastic for the spreading of Europe's material culture Samuel Marsden believed that 'the arts and religion should go together' He believed that 'civilization' should advance with 'the gospel'—or even ahead of it. But he could not accept as a legitimate ingredient of 'civilization' the exchange of fire-arms for human heads. Would not steady settlers be a more dependable agency for the spreading of the arts? 'If an effective government can be established in New Zealand to punish crime', wrote Marsden in 1824, 'a colony may be established and benefit the natives.'[1] Henry Williams, as he travelled through the North Island, was accustomed to mark down, quite as a matter of course, the districts which would be suitable for British settlement; and to reflect how 'blessed' such settlement would be. The missionaries in the field, unlike some of their supporters at home, had no dogmatic quarrel with the settlers' frontier. They were ready to welcome it, provided one essential condition was satisfied; provided 'an effective government'—and of course a Protestant and British government—came with it.

What the missionaries wanted most desperately was government in place of anarchy. In free competition between the good and evil elements of European civilization, the evil elements were winning.

[1] R McNab, *Historical Records of New Zealand* (Wellington, 1908–14), vol i, p 628

The introduction of fire-arms had inaugurated a series of ghastly tribal wars which was menacing the Maori community with utter destruction The strain of life was becoming intolerable for the missionaries themselves, and for their very large families. The missionaries desperately wanted some authority which would impose order upon the Maori and upon the very mixed European community which during the eighteen-thirties was growing by migration from New South Wales. But they were not prepared to accept the protection of France and the Pope. That is why Henry Williams (an evangelical ex-naval officer) joined with the British Resident in 1835 in securing from some Maori chiefs a declaration which purported to establish the independence of the 'United Tribes of New Zealand'. The declaration may perhaps have served some purpose as a temporary barrier against French colonization; but both the unity of the New Zealand tribes and their sovereignty were fictional. New Zealand was a vacuum, the Wakefield colonizers rushed into it, racing the French, and dragging after them a reluctant British government.

Why was Great Britain reluctant to extend her sovereignty over New Zealand? There was the usual motive of economy and the usual distaste for new responsibility. But there was something else. Lord Normanby, even while he was being pushed towards the act of annexation, protested that it was 'unjust'. It would, he foreboded, be 'but too certainly fraught with calamity to a numerous and inoffensive people, whose title to the soil and sovereignty of New Zealand is indisputable'.[1] This was not the view of Henry Williams and his fellow missionaries in the New Zealand field. But it was the prevailing view at missionary head-quarters in England. In the year 1836 two parliamentary committees were taking evidence—one on the subject of the waste lands of the Empire, the other on the subject of the protection of aborigines. The very titles of these rival investigations suggest the battle which Radicals and Evangelicals were fighting against each other for the control of the Colonial Office and the mind of the ruling class Wakefield and his friends advertised the existence of a great 'imperial patrimony' awaiting British settlement, and were determined to make New Zealand a part of it. They looked upon New Zealand as an empty country, an alluring expanse of waste lands calling for civilized occupation. Evangelicals like Dandeson Coates denied the existence of these 'waste lands'. In their view New Zealand was possessed already by the native owners of the soil. Both these views were too abstract and extreme for the

[1] *Cambridge History of the British Empire*, vol vii, pt ii, p 72

missionary pioneers who had come to grips with New Zealand realities. They wanted annexation. They were prepared for colonization. But they insisted that both should be accompanied by effective pledges for the protection of Maori rights. Their programme may be called 'annexation with safeguards'. They believed themselves to be in a position to carry their programme into effect. It was with their help that Captain Hobson in 1840 negotiated the Treaty of Waitangi between Great Britain and the 'Chiefs of the United Tribes of the Confederation of New Zealand'. The essence of the treaty was that the united tribes ceded to the Queen of England their rights of sovereignty, and acquired in exchange all the rights and privileges of British subjects together with a guarantee of 'full exclusive and undisputed possession of their lands and estates, forests, fisheries, and other properties which they may collectively or individually possess, so long as it is their wish and desire to retain the same in their possession'.

The Treaty of Waitangi was proved in the event to be a paper safeguard of little worth. The New Zealand Company argued that it was not binding, but ought rather to be regarded as 'a praiseworthy device for amusing and pacifying savages for the moment'. It is to the credit of the British government that it entertained 'a different view of the respect due to obligations contracted by the Crown of England'.[1] Except for a bad lapse in 1846, the British government did attempt to keep faith. But its attempt dwindled away in optimistic interpretations which the law-courts rejected and comforting assurances which the colonists repudiated The settlers' frontier took control of New Zealand's destinies, and the Maori chiefs lost 'their lands and estates, forests, fisheries and other properties' which the Treaty of Waitangi seemed to have secured to them. The missionaries and their friends at home protested. We can trace in their protests the evolution of the doctrine of trusteeship.

But let us first try to view the situation from the Maori point of view. Modern anthropological study has enabled us to understand it sympathetically.[2] European settlers a century ago (like a few New Zealanders even to-day) were very ready to accuse the Maori of being lazy. The settlers were generally of a fine stamp; they had staked their future on the 'waste lands' theory; they had come out to farm, believing that there was ample farming land for them; many of them had paid for their blocks in England. When they arrived in New

[1] Ibid, p 83

[2] For what follows see especially Raymond Firth, *Primitive Economics of the New Zealand Maori* (Routledge, 1929)

Zealand, they had no other desire than to get on with the work of settling the country It was bad enough to be held up by delays of survey and similar irritations. It was intolerable to be blocked by the assertion that land which they believed to be rightfully theirs was in the lawful possession of Maori owners. They looked around them and saw a country of unfelled forest with a few sparse patches of cultivation scattered through it. It seemed to them that the Maori were doing nothing with the vast areas which they were supposed to own And yet the Maori, even in their primitive state, were intelligent and assiduous workers. Even the games of children testify to Maori industriousness. 'Who will marry a man', the girls cry in the *haka* game, 'too lazy to till the ground for food?' 'Who will marry a woman', the boys answer, 'too lazy to weave garments?' The wisdom of adults, in terse business-like proverbs, reproves idleness. 'Man drowsing in a house, smack his head.' 'Man skilled in dredging fresh-water mussels, cohabit with him.' Nineteenth-century Europeans were not skilled in dredging fresh-water mussels, and were too ignorant of human history to understand how such an activity could possibly be called work. The Europeans brought to New Zealand an economic technique capable of transforming the environment. The traditional Maori economy was intricately fitted to the existing New Zealand environment. The Europeans were members of a world-wide economic society where division of labour called for increasing continuity of effort upon specific tasks, and where specialization brought its rewards in money Maori society knew only a very limited division of labour, and therefore imposed upon its members a multiplicity of successive tasks. Its incentives, like its techniques, were far less specialized than European ones.

'In a primitive society there is no relationship which is of a purely economic character.' The groups which united Maori people in co-operative economic activity were not primarily economic groups; they were territorial and kinship groups bound together by their own memories and loyalties. 'Therein lies the strength of primitive society, that it enlists the binding forces from one aspect of life to support those of another'[1] The economic activities of the Maori were woven into the indivisible texture of their community life. Bird-snaring, for example—an enterprise of great economic importance—was undertaken by kinship groups of various sizes, to the accompaniment of magical and ritual ceremony, in a spirit of individual emulation, and with elaborate artistic divagations such as the carving of the perches of the snare—by which craftsmanship and the spirit

[1] Firth, op. cit, pp 481, 482

of beauty multiplied a thousandfold the 'socially necessary labour'. How pale the phrases of abstract economic analysis appear when contrasted with the warm emotional interest which enlivened the Maori community to pursue with zest its economic tasks!

This warm emotional attachment supported the economic ties which bound the Maori to the soil of their country. No European formulae of land ownership would fit the intricacies of Maori law and custom; it would be inappropriate to speak either of private ownership or communism. Dr. Firth declares that there was 'an individual right of occupation but a communal right of alienation'. The generalization clinches usefully enough some aspects of his description, but fails to convey the impression of complexity which everywhere emerges from it—the impression of an intricate and varied, yet precise system of rights and duties belonging to individuals and the concentric kinship groupings, and determining the numerous specific forms and degrees of ownership which existed side by side with each other. The economic and proprietary system covered the whole surface of the country. The districts void of regular occupation were visited periodically for supplies—the swamps for eels, the forests for berries, timber, and game, other districts for ochre or the stone which furnished material for weapons and implements. There were no 'waste lands' in the sense of the Wakefield propaganda, though there was 'waste' in the old English sense.[1] Nor were there any districts estranged from Maori affection. The tribes had a name for every feature of the country, and by these features they marked their own boundaries. In legend and proverb they affirmed not only their traditional rights to the land but their devotion to it. A claimant arguing his title in a European land court rested it on the last words of a female ancestor—'Take me not away from the land but bury me within hearing of the Rangitahi waterfall.' A chief defending the title of his people to the Waitara block (the seizure of this block by the Europeans was the occasion of the second Maori war) spoke as follows: 'Governor, Waitara shall not be yielded to you. It will not be good that you should take the pillow under my head, because my pillow is a pillow that has belonged to my ancestors.' And another chief spoke in his support: 'Listen, Governor! I will not give Waitara to you. It will not be good that you should drag from under me the bed-matting of my ancestor.' Love for the land was the theme which inspired the poetry of bereavement and exile. . . . 'Send me a handful of earth that I may weep

[1] The waste was an integral part of the old English economy, and remained so down to a comparatively late date.

over it.' Interwoven with this tender sentiment was a hard-headed realization that the land was the essential basis of Maori life. 'Man perishes, but the land remains.'

Before the rise of modern anthropological science, the missionaries represented the only considerable class of Europeans who by their sympathy—for they believed in the brotherhood of man[1]—and by their experience—for on the advancing fringe of Europe they out-distanced even the traders—were in any degree equipped to appreciate and defend the needs of a primitive people. Their understanding, it is true, was often lamentably deficient, and it is easy enough to mock the ignorant and destructive assaults which they all too frequently made on valuable culture-forms which offended them by being 'heathen'. Yet their benevolence was not always ignorant; frequently it was reinforced by a saving common sense. If one grants their basic principle that the stronger people has an obligation to respect the weaker people's right to live, one must credit them with realism in the means which they advocated for making this principle effective in policy. In New Zealand, as in South Africa, they concentrated their energies in a struggle to defend native land-ownership.

And yet the New Zealand missionaries had been prepared to welcome British colonization. Were not missionary head-quarters in London, with their uncompromising hostility to colonizing projects, more realistic? On this question a good deal could be said. The missionaries in the field wanted British government in order to end anarchy; they wanted government more than they wanted settlement, they wanted settlement partly because they believed it would bring government with it. And settlement was bound to come. Evangelical protests in London were quite impotent to prevent it. Still, is it not worth while to fight for a hopeless cause? Should not the missionaries have realized that European methods of using the land were so incompatible with Maori methods that the latter must inevitably be overwhelmed? And should they not have realized that

[1] The Calvinism of the early New Zealand missionaries supported in a curious manner the Christian teaching of the brotherhood, even the equality, of men of all kinds and colours. As Calvinists, the missionaries believed in 'the total depravity' of the human soul apart from justification by faith. Natives, of course, were depraved, but nobody can be more than *totally* depraved. The missionaries' doctrine encouraged them to look for human resemblances, before long they were finding them in things commonly accounted good as well as in things commonly accounted bad. Some of Henry Williams's references to chiefs are strikingly egalitarian. The missionaries customarily referred to the Maori as 'the people'. (I owe these observations to Mr H. G. Miller.) For very different racial deductions from Calvinist doctrine in South Africa, see Part II of this Volume.

this would mean the ruin of the Maori people? But the missionaries did not believe this. They believed in 'civilization'. And they had very good reason for anticipating that the Maori, by a voluntary acceptance of 'civilization', would make room for European settlement and render possible a peaceful and fruitful collaboration between settlers and natives. Missionaries and traders had already prepared the way for this collaboration by stimulating the Maori community towards a changing economic life. One important aspect of this change was an increasing geographical concentration of economic effort. In their eagerness to win new kinds of wealth unknown to their neolithic culture, the Maori descended from their hill villages and planted flax in the swamp-lands, they copied European methods of the cultivation of crops, they even established mills They were already doing all these things before the Wakefield settlers arrived. Provided they continued along the new path of economic specialization and geographical concentration, there would surely be plenty of land for everybody. And they did continue along this path. From 1840 to 1856, and particularly during the last ten of these years, the Maori chiefs and people took with enthusiasm to farming on European lines. For a considerable period they supplied the European settlements with the bulk of their food, and in addition exported a large surplus to New South Wales In 1855 they provided half the exports of New Zealand.[1]

Why, then, were the hopes of a peaceful Maori transformation and peaceful inter-racial collaboration frustrated? Anthropologists trained in the 'functional' school will naturally be inclined to believe that the pace of transformation was too hot, the adoption of the western economic technique undermined all the functionally related aspects of Maori culture, reaction and rebellion were inevitable.[2] There is indeed plenty of evidence to suggest that the psychological adaptation to European culture lagged behind the economic adaptation; in the *Hau Hau* rising, for example, the Archangel Gabriel and other Christian symbols mingled wildly with the most brutal elements of primitive religion.[3] But this was after the Maori had themselves suffered brutal disillusionment at the hands of the Europeans. It may well be that a primitive culture cannot adapt itself to the

[1] Here again I wish to acknowledge my special debt to Mr H. G. Miller, who is the first New Zealand historian to give proper weight to these fundamental developments in Maori society and New Zealand history

[2] Firth, op cit, pp 456 ff and 468 ff, describes the phrase of the 'enthusiastic adoption of European culture-forms' and the subsequent reaction

[3] See F M Keesing, *The Changing Maori* (New Plymouth, 1928), p. 72, for a psychological interpretation of this cult

demands of western culture without undergoing an acute spiritual crisis, but there is no inevitability about the issue of this crisis. Or, if the inevitable outcome is violence, frustration, and despair, the theory of colonial trusteeship which the British Empire to-day professes is founded upon a fallacy and a lie

The record of frustration and wrong in nineteenth-century New Zealand does not demand so drastic an interpretation It must be explained, at least in part, by simpler historical causes. One of these causes was the economic depression which smote New Zealand in 1856, blighting the hopes and destroying the patience both of the Maori and the Europeans. The year 1856 witnessed another decisive event The imperial authority, by conferring self-government upon the European settlers, surrendered its trust. These two things together settled the fate of the Maori for the next half-century [1]

Hitherto the missionaries had defended their flock with a fair measure of success. Disputes about land produced a crisis in the eighteen-forties But the disorders which occurred in 1843 and again in 1845 came to an end in 1847 The rebellious tribes were not punished by confiscation, and, as we have seen, the years of peace during the late forties and early fifties were years of rapid Maori progress. There was an interlude during which favourable circumstance supported idealism and reason, but the interlude proved to be too short For a time, pressure upon the more populous and difficult North Island was relaxed as the Europeans switched over their energies to exploiting the easier opportunities of the South Island. Governmental action by extensive land purchases cleared the way for the settlers,[2] and the grassy plains eastward of the Alpine chain facilitated their advance The famous Edward Gibbon Wakefield himself honoured the country with his presence, even if its economic progress was due to that pastoral dispersion which he abhorred, its social and moral constitution represented something that he had always preached. Among the fifty members of the

[1] 'If only they could have hung on till 1861, when the gold rushes brought an immense new market, it would have been different' (Communication to the author by Mr H G Miller)

[2] For example, Mr Walter Mantell (who proved himself in his later career to be a good friend of the Maori) secured from the Ngatiahu tribe 30 million acres for a cash payment of £5,000, together with the delimitation of reserves and a promise of 'paternal care' in the form of schools, hospitals, &c Little was done to redeem the promise, but the government received about £5,000,000 for the resale of the lands I have seen a calculation that the Maori vendors received as payment an average of 17*s.* per head, together with 11 acres of reserved land and the broken promise of paternal care

Canterbury Association which Wakefield founded in 1848 were seven bishops and two archbishops. What a counterblast to the anti-colonist propaganda of the missionary societies! And what an encouragement to the migration of those morally elevated persons whom Wakefield had always regarded as the best settlers! Could the Colonial Office refuse the claim of such a community to manage its own affairs?

It would be paying the British government too high a compliment to say that it had been a model trustee It had shuffled out of its moral obligations under the Treaty of Waitangi. It had concurred in an ungenerous legalistic interpretation of the treaty which undercut the security of the Maori in their lands It had tolerated a predatory and shameful routine in land purchase But it was in the surrender of its trust that it irrevocably broke faith The surrender took place by stages—the concession of representative government, the concession of responsible government with reservation of native affairs, the abandonment of the reserved power. As it approached the last stage, the British government was compelled to face its own dishonour and humiliation.

In drawing up the constitution of 1852, the imperial trustee protested that it would fulfil its treaty obligations to the Maori chiefs, they would, for example, as British subjects, enjoy a vote. But none of them, in fact, ever enjoyed a vote Nor did the constitution do anything to give them a secure tenure of their lands, or give them access to the courts of law in matters relating to land They were left at the mercy of a legislative body constituted by the European settlers. In 1856 the settlers were permitted to constitute the government also Responsible government transformed the strategy of the New Zealand struggle Hitherto it had been fought not only in the colony but in the mother country; humanitarians and colonizers had competed for the ear of a Colonial Office which still possessed considerable power and also possessed strong humanitarian sympathies. But for the future the struggle of opinion within Great Britain would count for less, the issue would be simplified, and to some extent distorted, as a straight fight between colonial self-government and Colonial Office control [1] There was, of course, the inclusion of native policy among those matters 'affecting imperial interests' which, according to the terms of the minute on which the first responsible ministry took office, were reserved to the Governor as an imperial

[1] To some extent distorted, because there was diversity of opinion in New Zealand as well as in England a minority in New Zealand, not confined to missionaries, opposed the aggressions which the majority justified.

officer.[1] This reservation was the device adopted for reconciling imperial obligation and colonial self-government; it was the last line of missionary defence. Missionary policy, which in 1840 had accepted 'annexation with safeguards', was now forced back upon 'self-government with safeguards'. But would the safeguards work? Three years after the granting of responsible government, an act of reckless injustice precipitated war.[2] This war, says a distinguished New Zealand historian, 'can only be regarded as a desperate struggle by the natives to preserve their interests in the face of what they regarded as Pakeha aggression. The fact is unpalatable but inescapable'.[3]

By surrendering her trust, Great Britain had left the destiny of New Zealand to be decided by brutal force. On the one side were the Europeans, determined, as Governor Gore Browne reported, to get possession of Maori lands *recte si possint, si non, quocunque modo.* On the other side were the Maori, driven by desperation into a supreme effort of national concentration, attempting through their land league and their King movement to save while there was yet time their 'land, *mana*, and nationality'.[4] On both sides there were individuals of good will and far-sighted reason; these individuals devised admirable paper solutions and submitted them to an impotent imperial authority. There was a vigorous discussion of principle. It had no immediate effect upon the crisis in New Zealand. But it helped to clarify some issues which in Kenya and elsewhere still constitute a fundamental challenge to the professed ideals of the British Commonwealth.

'Why should not the two races', asked Bishop Selwyn, 'form as it were two colonies, the one in the more advanced state of representative institutions, the other in the state in which many British colonies still are, more immediately under the direction of the

[1] See A. J. Harrop, *England and the Maori Wars* (London, 1937), p. 37. And on constitutional aspects of the conflict between imperial trusteeship and colonial self-government, with illustration from the whole record of the British Empire's experience, see A. B. Keith, *Responsible Government in the Dominions* (Oxford University Press, 1929 edition), vol. ii, ch. iii.

[2] *Cambridge History of the British Empire*, vol. vii, pt. ii, p. 134. Governor Grey admitted, too late, the justice of Maori possession of the Waitara block. It may be added that the Royal Commission on Confiscated Native Lands (1928) endorsed the Maori claim.

[3] J. B. Condliffe, *New Zealand in the Making* (Allen & Unwin, 1929), p. 55.

[4] Governor Gore Browne in 1859 thus explained the meaning of the land league and the King movement. 'The natives have seen the land they alienated for farthings sold for pounds, they feel that dominion and power or as they term it "substance" went from them with the territories they alienated, and they look forward with apprehension to the annihilation of their nationality.' Harrop, op. cit., p. 64.

Crown?' Here was an attempt to think out a 'dual policy' which would safeguard the parallel development within a single territory of two different communities.[1] Far-sighted Maori leaders were themselves calling for such a policy. A sympathetic European thus recorded the argument of the moderate Maori statesman William Thompson. 'He stuck in the ground two sticks. "One", he said, "is the Maori King, the other is the Governor." He then laid on the top of the sticks a third horizontally. "This", he said, "is the law of God and the Queen" Then he traced on the ground a circle enclosing the two sticks "That circle is the Queen, the fence to protect all."'[2] Sir Frederick Rogers in the Colonial Office minuted that the argument meant 'I am ready to acknowledge the supremacy of the Queen—the distant authority which cannot act effectively on me. But I am not ready to acknowledge the immediate and effective authority of the Governor.' But the Maori statesman might have replied with justice that the Governor was in partisan hands If only there had been a Governor with effective independent authority as representative of the Queen, William Thompson might willingly have redrawn his pattern with two sticks to represent the Maori King and the Pakeha Prime Minister, a horizontal stick above them both to represent a Governor with real regulative authority, and the circle of the Queen's authority still encompassing New Zealand and guarding it from the outside world. Many experienced and intelligent observers believed that the British government ought to preserve the institutions of the Maori people and build upon them, instead of permitting the colonists to destroy them Some of the phrases which occurred in the discussion anticipate the later terminology (which is to be sure, frequently rather vague) of 'indirect rule'. Chichester Fortescue argued that 'the chiefs in native districts should be made use of and attached to the Governor'. Sir William Denison, the Governor of New South Wales, pointed out the advantages of using the King movement to create a permanent Maori authority which would be an instrument of government and progress. Sir Frederick Rogers himself would have liked to establish an effective Maori authority under British tutelage. 'This is', he reflected, 'no new mode of proceeding, but one which has succeeded under most varied circumstances—with Indian Rajahs, mediaeval feudatories, and

[1] The 'dual policy'—i e 'the complementary development of native and non-native communities'—was proclaimed for Kenya by the Ormsby-Gore report of 1925 (Cmd. 2387) This 'dual policy' is very different from the 'dual mandate' See vol i of this *Survey*, p. 229

[2] Contained in Memorandum submitted by Sir William Martin, the Chief Justice, entitled 'Our Relations with Waikato'. Quoted Harrop, op cit., p. 137.

African chiefs.' Then why not employ the same proceeding in New Zealand? It was too late. Great Britain had already divested herself of power. 'The real difficulty', Sir Frederick Rogers concluded, 'is to carry on this system of manipulation in the face of a body of British colonists enjoying responsible government.'[1]

There were some observers, no less friendly to the Maori, who argued that the difficulty of combining imperial trusteeship and colonial self-government was insuperable. It was impossible to recall self-government. Therefore it was necessary to extend it. The imperial authority, by the reservation of native affairs, still retained formal responsibility for the fulfilment of the obligations which it had undertaken by treaty with the Maori chiefs. But it had surrendered the power of honouring those obligations. It ought, therefore, to transfer the obligations to those who already enjoyed the power. It ought to cancel the reservation of native affairs. This argument was put forward by Archdeacon Hadfield. Was it anything more than an argument for ratifying the surrender of trust? The colonists had never accepted the terms of the trust and had an interest in abusing it. But the archdeacon believed that the educative effect of full responsibility (including financial and military responsibility) would cause them to take a different view of their interest. 'The ministers and the legislature', he pleaded, 'would be obliged to approach these questions more seriously and with a deeper sense of responsibility.' Similar pleas are not infrequently heard to-day.[2]

The British government was too weak to act upon either of the proposed principles. To adopt a 'dual policy', it would have to withdraw from the colonists constitutional powers which it had already granted; and there was 'no use raising these storms again'. To surrender its formal responsibility for native affairs, it would have to face the indignation of humanitarian and missionary opinion at home, and to confess itself guilty of 'injustice and bad faith to the natives'.[3] Besides, the colonists did not really want it to surrender these powers. They were enjoying the best of both worlds. Although the Governor was nominally in charge of native administration, he had under the civil list no more than £7,000 a year to pay for it. For additional money he had to come to the assembly and accept its conditions. He had also to come to the assembly for legislation.

[1] Harrop, op cit, pp 81, 86, 118, 139.

[2] See the argument of Mr. Lionel Curtis in Lionel Curtis and Margery Perham, *The Protectorates of South Africa The Question of their Transfer to the Union* (Oxford, 1935)

[3] Harrop, op cit, pp 128, 156.

It was its custom, when legislating, to entrust executive functions not to the Governor alone, but to the Governor-in-Council—that is to say, to the ministers whom it could depose. Governors complained with reasons that there had been 'an unequal and unsatisfactory' division of power; they lamented their 'insufficient funds, circumscribed powers, and inadequate assistance'. They were unable to provide the Maori with schools or hospitals or agricultural assistance. There was only one department of native administration which had any life in it. that one department was land purchase When the Governor acted in native affairs as an imperial officer, he acted ineffectively. When he acted effectively, it was by associating himself with the policy of the colonists

Moreover, war and peace were matters for the imperial authority. This was an arrangement which admirably suited the New Zealand colonists. In fact, it was their aggression against the Maori which produced the struggle of the eighteen-sixties. But in form, this struggle was an imperial war New Zealand politicians made the most of this situation. Standing on the letter of the constitution, they insisted that imperial troops and imperial treasure must bear the brunt of the imperial war So Great Britain had to pay the piper while the colonists called the tune. And what a tune it was! 'There can be no peace or truce with murderers and assassins', shrieked the Taranaki *Herald*. 'Their lives and lands are the forfeit of such wicked and unprovoked aggression, and we devoutly hope that no mistaken leniency will allow of these natives escaping at least the latter penalty. . . . Land is the only property a native has, and if he can play rebel without forfeiting his possessions, there is nothing to check or restrain him . . .'[1] So British soldiers must shed their blood in order that the colonists might get for nothing that residue of the Maori inheritance which the Maori refused to sell.

The situation was an intolerable one. It poisoned feeling between the Governor and his ministers, between the Governor (when he identified himself with his ministers) and the commander-in-chief, between the soldiers and the settlers, between the colony and the mother country *The Times* called angrily and often for a complete cutting of the knot Let the New Zealanders be given full control of their own Native policy, and let them do their own fighting and paying. The British government tried to cut the knot. As early as 1863 it tried to adopt the policy of Archdeacon Hadfield and *The Times*. 'The Home Government', it declared, 'has discharged its trust honestly and wisely.' It was now time for the colonists to

[1] Harrop, op cit, p. 78 (quoting Taranaki *Herald*, 7th April 1860).

inherit the obligation.[1] But the colonists were too clever to be caught. They were ready to accept constitutional advancement, but not to pay for it. They were ready to enlarge their status in the sphere of native affairs, not in the sphere of defence. They claimed, as loyal British subjects, the privilege of being defended by British troops. No British government dared to defy the loyalty cry in New Zealand and at home and leave them to fight their own battles. So the poison of bad feeling continued to work until Maori resistance was beaten down. 'Our New Zealand colonists', complained *The Times* in May 1869, 'do not pretend for one moment that they are too few to compete with the savages around them. They are only too rich and too busy.' In February of the same year Sir Frederick Rogers reviewed the successive stages of Great Britain's discomfiture. The colonists, he reflected, had first of all got the power of the purse. They had then secured responsible government with reservations which proved to be fictional. Thus armed, they had made a satisfactory native policy impossible. They had driven the Governor to abandon all caution in land-purchase. They had called the resulting explosion an imperial war. 'They wanted'—so this review concluded —'and always have wanted, and always will want, to control the natives at our expense.'[2]

But the Maori were now beaten. In 1870 the last British regiments were recalled from New Zealand.[3] The Maori never again caused the colonists any trouble. Their will to resist was broken. The white men now had all the power. How did they use it? Did full responsibility produce those fruits of justice and humanity which Archdeacon Hadfield had anticipated? These questions cannot be answered here at length. But briefly it may be said that the colonists for thirty years or more abused the trust which had been handed over to them. The peace, as self-governing New Zealand administered it, was in Maori eyes a continuation of the war by other means. 'The peace of the Pakeha is more to be dreaded than his war.' The New Zealand

[1] Harrop, op. cit., p. 161.

[2] Ibid., p. 352. All the same colonial forces did play an increasing part as the wars continued. And there were some New Zealand politicians—notably Fox and Weld—who professed a 'self-reliant policy' which the community as a whole refused to adopt.

[3] See generally C. P. Stacey, *Canada and the British Army 1846–1871* (Imperial Studies, vol. xi, London, 1936). This book traces the colonial clamour for increased privileges and colonial resistance to increased obligations. It traces the movement for the withdrawal of the colonial garrisons, and shows its connexion with the Cardwell reforms. The author observes that 'the same years which saw the end of the colonial garrison system saw also the beginning of the decline of anti-imperialism in Great Britain'.

Land Court, which was the vehicle of colonial justice in that sphere which meant most to the Maori, has been described by a scholarly New Zealand historian as 'a means of facilitating the separation of the Maori from his land as equitably and painlessly as possible'. According to the same historian, the Maori community, during the thirty years which followed the surrender in 1862 of the Crown's right of pre-emption, 'lost the greater part of their ancestral heritage, including most of the best situated and fertile land'. They lost during the same period their old tribal organization and discipline; and they lost heart. But not for ever. Nor did the white men remain for ever implacable The writer who has just been quoted deals with the more recent policy of the European New Zealanders under the heading—'tardy justice', and he ends his survey with a short account of the 'Maori Renaissance'[1] The recent chapters in Maori history are more hopeful ones than would have been thought possible a generation ago. The missionary champions of the Maori people had not after all suffered a complete defeat The settlers' frontier had swept forward until the Maori were left with only 4½ million acres of their ancestral lands; but the missionaries' frontier had played a part in transforming the settler-community into a liberal and humane State. Within that State the Maori willed for themselves a destiny. They had survived the agony of the nineteenth century, soon they began to face the twentieth century with hope. They increased in numbers[2] They set themselves once again to their interrupted task of assimilating western technique and knowledge They produced leaders—scholars, politicians, and even ministers of the Crown. They fitted themselves into the European framework and received an infusion of European blood, but they carried into their modern way of life an inspiration from their legendary past The European community itself began to feel a tender sentiment for that past. Having appropriated the Maori inheritance, it claimed a share in the Maori tradition[3] This spiritual acquisitiveness of the twentieth century was a sign of grace. It symbolized regret for the brutalities of material acquisitiveness in the nineteenth century. Regret inspired acts of material reparation. Reparation was dribbled out at first in small instalments; but the pleasure of making generous gestures, and surprised delight at the Maori response to them, pro-

[1] The quotations are from Condliffe, op cit See also Keesing, op cit, and I L G. Sutherland, *The Maori Situation* (Wellington, 1935)

[2] In 1926 the Maori population was estimated at 64,000 in 1936 at 82,000

[3] 'The Maori has a tradition of which he is justly proud—and the Pakeha as a New Zealander feels that he too shares in that tradition' Speech of Mr. Savage, Labour Prime Minister, at Maori Labour Conference, 6th June 1937.

duced in the end a real generosity. The New Zealanders discovered with pride that they were solving a problem which was baffling other nations. 'Though there are two races in New Zealand,' declared the Prime Minister in 1937, 'we are but one people.'[1]

It is only too easy for repentance to dwindle into complacency. But the repentance of the Pakeha is still bringing forth its fruits.[2] The story of Pakeha and Maori gives fair hope of a happy ending. Such endings are exceptional. European civilization in Australia, long before it entertained any thoughts of 'tardy justice', had brought about the entire extinction of a human species, the aboriginals of Tasmania. On the mainland of Australia the show of 'tardy justice' to-day still seems to many Australians to be a pitiful mockery.[3] As for the Canadians, it would perhaps be unbecoming for an Australian writer to disturb their complacency. A Canadian professor once explained: 'We did not drive out the Indians. The Indians went away when we came.'

Native peoples often did 'go away' before the white man came, because the white man's diseases moved in front of him. Epidemic has been perhaps the most persistent and thrusting frontier of European expansion. But that frontier is now stabilized. Europe has created, at last and at least, one form of world unity which cannot be challenged, the unity of bodily illness and immunity.[4]

It has been the historic task of the missionaries to defend primitive peoples against the destructive effects of the European impact. Sometimes that task has been a hopeless one.[5] Sometimes the missionaries have misconceived it, mishandled it, or shirked it. David Livingstone, when he first went to Africa, discovered with angry surprise that the missionary establishments there were riddled with timidity, compromise, and petty routine. *But*—David Livingstone went to Africa. He went to the missionaries' frontier. What would

[1] Speech of Mr. Savage, 6th June, 1937.

[2] Among fruits of Labour policy after 1936 were—secret ballot for Maori voters, equality with Europeans in employment policy and unemployment relief, increased expenditure on education and school buildings, free milk, &c., increased expenditure on health and pensions. The basic land question can be studied in Condliffe, op. cit., and Sutherland, op. cit.

[3] e.g. *The Times*, 25th November 1937, reporting an address by Professor Wood Jones to the Victorian Anthropological Society. 'If Australia's five Royal Societies, six Universities, and three Anthropological Societies could not move public and Governments, Australia in 30 years' time would be indelibly branded with the brand of Cain. . . . The aboriginals' reservations in Central Australia were a bitter joke . . .'

[4] See *The Limits of Land Settlement*, ed. Bowman.

[5] A missionary tried to save the remnant of the Tasmanians. He persuaded them to leave their hiding in the bush and took them to an island in Bass Strait. But they died there.

have been the record of European expansion if the missionaries had not shared it? What was the Bay of Islands like before Samuel Marsden founded the first New Zealand mission? The missionaries were for the most part profoundly ignorant of 'the heathen' whom they were trying to convert. They did not know any anthropology. What a pity that there were no anthropologists to teach them! Some of them taught themselves. They became pioneer field-workers in anthropology. Yet modern anthropologists sometimes speak as if the missionaries were the chief enemies of primitive peoples.[1] Modern economists show more respect for the missionary record. The missionaries believed in the brotherhood of man. It was a belief which had economic implications of deep importance. The missionaries fought against the policies which would make the black man a human instrument, a mere means to the ends of his white masters. Those policies have proved themselves repeatedly to be economically wasteful.

The missionary struggle had varying success according to circumstances. Circumstances frequently meant climate. In West Africa, where white men were unable to settle, the missionary ideal achieved some spectacular success.[2] In South Africa it suffered spectacular reverses. In East Africa there was a balancing of forces, an ebb and flow of struggle. Later chapters will examine the triangle of African policy during the years which followed the Great War. This section has told a New Zealand story in order to illustrate the missionary ideal in action. Of necessity, the story has been handled impressionistically, and can do no more than emphasize a few aspects of the long and complicated record of missionary work. The reader should above all remember that 'the missionaries' frontier' is to some extent symbolical: it represents an aspect of expanding European society which is not always visible in the activities of the missionaries themselves, and is sometimes recognizable in other activities than missionary ones.[3] It may sometimes happen that the soldier is doing more notable service on the missionaries' frontier than the clergyman. It was a soldier, the present Lord Lugard, who both by his practice and his theory pushed the idea of trusteeship into the

[1] See, for example, Wood Jones, loc. cit.

[2] Mary Kingsley grew to admire increasingly the superb qualities of individual missionaries like Mary Slessor and Mr Kemp; at the same time her sympathies remained with the 'palm oil ruffians' whom many missionaries too frequently regarded as enemies to African welfare. In the vast work of collaboration between Europe and Africa she believed that trade was playing the most positive and healthy part.

[3] Dr A. De Kat Angelino calls it the 'pan-humanistic' aspect, and traces its derivation from Christianity and modern liberalism. See his *Colonial Policy* (The Hague, 1931), vol. i.

forefront of British colonial policy. The idea may claim direct descent from the evangelical revival of the eighteenth century, through the slave emancipation movement and the still surviving Aborigines' Protection Society; but its ancestry and its following are in truth more widely diffused—perhaps because Wilberforce and his friends won so many converts.

The converts of Wilberforce and the disciples of Adam Smith discovered that they were natural allies. Both missionaries and free-traders belonged, or professed to belong, to a society wider than any state or empire. Their ideas about this 'great society' were in many respects contrasted ones; but in working out the implications of their ideas they found themselves repeatedly upon each other's ground. The religious motives of the missionaries embodied themselves in policies of land and labour which had outstanding economic significance. The economic propositions of the free-traders transformed themselves into a gospel of peace. In 1838 Cobden determined to infuse a religious spirit into his propaganda and to model it on the anti-slavery agitation; by 1842 he had convinced himself that free trade was the only road to 'universal and permanent peace' Trusteeship for native peoples and trusteeship 'for the commerce of the world' were certainly distinct things; the two trusts might conceivably conflict with each other. But the latter did normally support the former. To maintain an open door for the trade of all nations was a means of protecting colonial peoples from proprietary exploitation by a single imperial nation The spirit of national economic exclusiveness was one of the greatest dangers with which the champions of primitive peoples had to reckon.

During the generation before the Great War, that spirit was growing. Even while the mandate idea, thanks to the momentum which it had gathered in an earlier period, was still extending its range and entrenching itself in new international conventions, the forces of national and imperial exclusiveness were advancing to the attack.

IV

The National System and the New Imperial Plan

The free-trade doctrines which emanated from Great Britain were promptly challenged in America.[1] They were challenged fifty years later on the continent of Europe. They encountered there a resist-

[1] See the Report of Alexander Hamilton in 1791 advocating an American protectionist policy Hamilton, *Works*, IV 69 ff.

ance which was deeply rooted in theory, emotion, and will On the point of theory, continental antagonists fastened upon their optimistic assumption of a beneficent self-regulation within economic society. Adam Smith's optimistic but not unqualified[1] belief in the 'invisible hand' had been exaggerated beyond measure by some of his followers, until it grew into a perfectionist pretence that the State could be altogether ignored A rough exposure of this illusion came from Germany. German thinkers and fighters of very different types agreed in emphasizing economic disharmonies and clashes of interest. German communism branded the State as the instrument of an exploiting class. German nationalism magnified the State as the instrument of economic emancipation for the German folk Both the communists and the nationalists rated pretty low the religious fervour of Cobden and his friends. 'To convert all other nations to the gospel of Free Trade', wrote Engels 'and thus to create a world in which England was the great manufacturing centre, with all other countries for its dependent agricultural districts—that was the next task before the English manufacturers and their mouth-pieces, the political economists.'[2] Friedrich List, at very great length and in his accustomed manner of 'contradicting energetically', said exactly the same thing. There was just this difference between List and the communists—that whereas they saw in the English manufacturers and their 'mouth-pieces' the exploiting power of capitalism, he saw in them the power of the English nation, which was barring the economic advance of the German nation

It was natural that continental observers should see clearly and critically facts which Englishmen took for granted as part of the permanent and proper ordering of the world. In the first half of the nineteenth century it was easier for Englishmen than for foreigners to offer a quasi-religious allegiance to the Great Commercial Republic, because that society was equivalent in practice to the informal economic empire of Great Britain. Great Britain was its workshop, she was predominant in its navigation and commerce; her capital and her emigrant-settlers were developing its outlying territories, her money was its standard of value, her navy was the guardian of its peace Was it likely that a German patriot would accept all this, together with a scheme of thought which seemed designed to per-

[1] See note 2 on p 29, above

[2] Preface to Marx, *A Discourse on Free Trade* (Boston, 1889), p. 6. Cf the caustic criticism by Marx himself at pp 12–13 The communistic polemic against English economics did not spare Adam Smith himself, whom Engels (infinitely preferring the plain blunt mercantilists) contemptuously named 'Der okonomische Luther' (*Marx-Engels Gesamtausgabe*, Abt. I, p 183, also Abt. IV, ch 3, sec. 2).

petuate it? To List, the Great Commercial Republic was merely an aspiration—a noble aspiration no doubt, but not a fact. the fact was England's predominance [1] As a German, he desired that his nation should break free of it. It was this affirmation of national allegiance and will which determined his whole argument. He was ready to be a citizen of the world when there was a real economic equality between its constituent peoples, till then, let every people attend first of all to its own economic interests. 'In order to allow freedom of trade to operate naturally', he argued, 'the less advanced nations must first be raised by artificial measures to that stage of cultivation to which the English nation has been artificially elevated '[2] He believed that England owed her industrial greatness both to her former policy of economic protection and her latter policy of economic liberalism, for in his view there were no principles of economic policy possessing universal validity in logic—to say nothing of that morality which Englishmen added to their logic. There were only different stages of development, to which different policies were in turn appropriate England was now right in adopting free trade, and Germany was now right in aiming at a moderately-protectionist *Zollverein*. Germany should be prepared to do what England had once done—to sacrifice present cheapness to future productive power, for the tree was more important than the fruit A tree well rooted in national soil would in due season yield fruit more certainly, perhaps even more abundantly. List did not dispute that increasing opulence was dependent upon the progressive division of labour, but he desired that progress to take place, so far as possible, upon national soil and under governmental guardianship. 'The reciprocal exchange between manufacturing power and agricultural power', he argued, 'is so much the greater, the closer the agriculturalist and the manufacturer are placed to one another, and the less they are liable to be interrupted in the exchange of their various products by accidents of all kinds.'[3] He did not push his argument to extremes. If the present-day worshippers of autarky should desire to commemorate a nineteenth-century prophet of their creed, they would

[1] See Friedrich List, *The National System of Political Economy* (English translation, Longmans, 1904), pp 100 ff ' the assumption that all nations of the earth form but one society living in a perpetual state of peace ' 'The popular school has assumed as being in existence a state of things which has yet to come into existence ' And p 260 'What they (the continental nations) all have to fear at this time is solely the preponderating competition of England ' It is significant that List's book was translated into English in 1885 by Sampson Lloyd, a personality in the 'Fair Trade' movement which is discussed below

[2] Op cit, p 107

[3] List, op. cit, p 127

do well to choose, not the economist List, but the philosopher Fichte.[1] List was after all a pre-1848 German liberal, he believed deeply in civic and political liberty, and he was not willing to protect any industry which could not establish itself behind a 40–60 per cent. tariff and maintain itself thereafter behind a tariff of half that height.[2] Yet it is not enough to say of him that he widened the gap which Adam Smith had left for the intrusion of defence and other non-economic considerations into economic policy He definitely shifted the balance of emphasis. He made Adam Smith's reservations his own primary assumptions. He claimed for himself the distinction of substituting *political* economy for *cosmopolitical* economy. He rejected the ideal of the free functioning of individuals in an unsundered world society. 'Between the individual and entire society' he declared, 'stands the NATION . . . a society which recognizes the law of right for and within itself, and . is opposed to other societies of a similar kind . and can only, under existing conditions maintain self-existence and independence by its own power and resources'[3] In this pronouncement List affirmed not only the reality of national cultures, but the legal and moral irresponsibility of national States He was not merely a realist, he made *realpolitik* the only standard. He aimed at Adam Smith and hit Grotius. If economic science decided to follow this example, it would have to surrender its newly won autonomy and become once again a branch of *raison d'état* Not Adam Smith, but Hobbes would be the revered master of economic thinkers List's vendetta against Adam Smith advertised the immense reinforcement which national self-consciousness was about to bring to the economic armament of the sovereign State

Cobden prophesied in 1846 that all civilized nations would very soon follow Great Britain's example in removing the shackles upon trade. The trend of continental policy quickly refuted this prophesy. At the same time, Great Britain began manifestly to lose the advantages of the flying start in manufacture and trade and finance which she had enjoyed in the early decades of the nineteenth century. Not infrequently the late-comers to industrialization were able to profit from British mistakes and improve upon British experiment. But it was natural that many people in Great Britain should accept continental protectionist policy as the chief direct cause of increasing continental competition They saw the Great Commercial Republic, whose metropolis they had aspired to be, disintegrating into a many-

[1] In *Der geschlossene Handelsstaat*, Fichte preached an extreme doctrine of national economic self-sufficiency

[2] List, op. cit, p 251.

[3] Ibid, p xi (from the original German preface).

centred aggregate whose units were apt to be more conscious of their rivalry than of their interdependence. In the face of this disillusionment, what should British policy be?

Three answers were given to this question. They expressed themselves in three successive phases of policy or political agitation. Rigid isolationist free-traders gave the first answer. Realistic negotiating free-traders gave the second answer. Protectionists gave the third answer.

The orthodoxy of many free-trade zealots stiffened. They argued that Great Britain should go her own virtuous and profitable way, without troubling herself about the follies in which foreigners chose to indulge. Some of them even congratulated their country on its luck in having fools for neighbours. Free trade, which in the forties had been proclaimed the royal road to the brotherhood of mankind, was defended in the eighties (by some at least of its devotees) as England's best weapon in the unbrotherly economic warfare in which her lot was cast

> 'Under universal Free Trade,' wrote a Cobden Club pamphleteer, 'we should lose the one enormous advantage which we now possess, that none of our products are loaded with duties on the raw material thereof, as those of our competitors are . . . If universal Free Trade prevailed, it is certain that articles would be manufactured where production could be most cheaply carried on If so, we have to ask ourselves, is Great Britain the cheapest place for the production of iron, and steel, or of ships, or of cotton goods, or of woollen goods, or of machinery?'[1]

Shades of Cobden! But Cobden, even in his lifetime, had got into serious trouble with the Cobdenites. He had been concerned in a transaction which the rigid free-traders considered to be 'degrading and injudicious, whether it is considered in a political or an economic point of view'[2] This transaction was the Anglo-French commercial treaty of 1860, sometimes called in England 'the Cobden treaty'.

This treaty introduced into Great Britain's nineteenth-century commercial policy the phase of most-favoured-nation agreements, a phase which is not yet entirely closed. It was the response of the realist free-traders to the challenge of protectionist disintegration within the Great Commercial Republic It was a response inconsistent with the strictest doctrinal orthodoxy, for it substituted for the autonomous application of free-trade principle a bargain by which Great Britain recognized, even while she mitigated, the protectionist

[1] G W. Medley, *Fair Trade Unmasked* (Cobden Club, 1887), quoted in C J. Fuchs, *The Trade Policy of Great Britain and her Colonies since 1860* (translation, Macmillan, 1905), p 186.

[2] See note xiv to p 546 of McCulloch's edition of Adam Smith

principles of foreigners. What the Cobden treaty actually did was to promise to France concessions in the British tariff, in return for concessions to Great Britain in the French tariff, together with the reciprocal grant of most-favoured-nation treatment. Historians have always agreed that the treaty served well the interests of Great Britain, recent investigation has combated the idea that it was hurtful to the interests of France [1] It is difficult to have any patience with the petty reproaches of the free-trade purists. One consequence of the treaty was that Great Britain became a purely revenue-tariff country Nor were the British tariff reductions an exclusive and particular favour to France; they were brought into effect by an act of the legislature which granted them impartially to all nations. Impartiality under all circumstances both on the part of Great Britain and foreign countries, reduction in foreign tariffs wherever possible—this was the aim of the most-favoured-nation policy. To realize that aim, Great Britain was forced to weave a widely extending network of commercial agreements In virtue of the most-favoured-nation clause in the treaty of 1860, she received automatically the special concessions which France granted subsequently to other nations. But what of the concessions which those nations granted to France? In order to secure them, Great Britain negotiated during the eighteen-sixties most-favoured-nation treaties with most European countries (Spain and Portugal remained for a time outside the system) and with a large number of countries overseas. These agreements could not stay the upward movement of foreign tariffs But they could and did construct a barrier against the practice of tariff discrimination.

Great Britain brought her own dependencies inside this impartial system By her treaty with Belgium in 1862 she bound herself not to revert to the policy of imperial preference which in 1860 she had finally abandoned by her own legislative act. By her treaty with Prussia and the German *Zollverein* in 1865 she went further. She not merely renounced her own right to institute a preferential system, but made it impossible for colonial legislatures to favour British exporters by a policy of differential tariffs. By operation of the most-favoured-nation clause, all countries which had trade treaties with Great Britain received in the colonies the same equality of treatment which had been granted to Belgium and the *Zollverein*.[2]

Did the most-favoured-nation policy adequately defend British

[1] Dr Dunham, in his study of the effects of the treaty, concludes that it had the effect of promoting modernization and efficiency in French industry.

[2] Hertslet, *Commercial Treaties*, vol xl, p 66 (article xv), and vol xli, p 761

interests in face of the growing economic nationalism of foreign countries? After the Franco-Prussian war, France reacted strongly against the liberal commercial tendencies of the fallen and discredited Empire. A drive towards high protection took place all over Europe; it spread overseas to America, and even to the self-governing colonies of the Empire. It was therefore understandable that the business community in Great Britain should grow restive. There was grumbling against 'one-sided free trade'. There was talk of 'fair trade'. There were attacks on the most-favoured-nation agreements.

The arguments which for half a century or more have been brought against the most-favoured-nation clause contain considerable force. British commercial negotiators discovered during the eighteen-sixties that their bargaining power would have been stronger if their country had not by its own autonomous action made universal the concessions which it had granted to France. The government nevertheless believed that the maximum degree of reciprocal impartiality, rather than exclusive bargaining, was the most profitable object of policy. But did the most-favoured-nation clause ensure a genuine impartiality of treatment for British exports? It was true that Great Britain automatically received the tariff concessions which third parties granted to each other in treaty, but these concessions were carefully adapted to the special needs of the treaty-making countries. Was it anything more than an accident if they suited British needs also? Moreover, behind the screen of formal equality there was in fact deliberate differentiation to the detriment of British trade. Foreign nations were evading the most-favoured-nation clause by the devices of 'administrative protection'—by preferential railway rates, veterinary regulations, the rationing of imports, the manipulation of contracts, packing regulations, and partial decisions of the customs officials. Closely allied to devices of this nature, both in intention and effect, was the growing habit of specialized definition in tariffs and tariff treaties. It was possible to define concessions so narrowly that, even when they were generalized by operation of the most-favoured-nation clause, the country to whom they were originally granted was the only one in a position to take advantage of them. Text-books began to quote a notorious item of the German Tariff Act of 1903,

(article vii) On the m f n clause in general in this period, see, in addition to Hertslet, the Returns of m f n clauses in operation C 7229 of 1893, Cd 1807 of 1903, Cd 3395 of 1907. Fuchs, op cit, gives a readable account of the m f n policy 1860–90 from a moderate protectionist angle. The best general introduction is in T E Gregory, *Tariffs A Study in Method* (London, 1921), ch xi. On p 449 there is a short and judicious biographical note

which, with the intention of granting exclusive favour to Switzerland without formal breach of most-favoured-nation obligations, specified a low rate of duty on the import of 'large dappled mountain cattle or brown cattle reared at a spot at least 300 metres above sea level and which have at least one month's grazing a year at a spot at least 800 metres above sea level'

In one way or another, hard-bargaining protectionist nations were in truth granting to each other particular favours, and thereby defying the spirit, if not the letter, of their most-favoured nation obligations Did this mean that Great Britain was ceasing to have an interest in maintaining the network of obligations which she had played so large a part in creating? The majority of her statesmen officials, and economists did not think so They argued that exactly the same kind of discrimination would take place on a much larger scale if the *restraining effect of the most-favoured-nation clause* were removed. Moreover, they believed that the volume of trade which was affected by evasions of the clause was small in comparison with the volume which remained unaffected [1] This was a matter for statistical investigation But a cold reckoning of facts is not stuff for the constituencies.

When bad times descended upon the industrial cities of Great Britain, the statistics of trade were simplified so that they might serve rhetoric. A method of simplification which occurred with growing frequency was the compilation of tables which showed the rapid rate of trade increase among foreign nations and the much slower rate of increase in British trade [2] Figures of comparative percentage increase are always misleading unless they are accompanied by figures showing the quantity and value of the things increased But, although experts might expose the fallacious use of these percentage tables, a growing section of the public was convinced that foreign nations were driving Great Britain out of world trade, and that the government ought to do something drastic to stop them From about 1875 onwards small protectionist minorities began to gain some influence in the chief industrial centres. These minorities grew rapidly in times of depression and contracted when conditions grew easy again, but amidst the fluctuations there was throughout the last quarter of the nineteenth century a persistent upward movement in their numbers and their confidence. For a long time they fought shy of the compromising word 'protection'. In 1868 a little

[1] See, for example, the critical discussion in Gregory, op cit, pp 472-82

[2] An able but typically tendentious selection of figures is the *British Traders' Vademecum*, ed. Edgecombe (London, 1892)

protectionist group in Manchester called itself the 'Revivers' Association'. About ten years later the phrase 'fair trade' came into favour. The National Fair Trade League was formed in 1881, and had its ups and downs following the advances and recessions of business. It reached its peak of propagandist effectiveness in 1886 and 1887 In the first of these years the minority report of the commission on depression of trade adopted its recommendations, in the following year the congress of conservative associations adopted them [1] But there was as yet no outstanding leader sufficiently courageous or convinced to stake his political career on the protectionist movement In Birmingham, Mr. Joseph Chamberlain was still keeping himself very severely aloof from the protectionist chamber of commerce [2] So the cause languished for lack of a leader. Perhaps it was as yet hardly a *cause*, it needed a moral or emotional appeal to give it drive. It needed a man; it needed a banner. Early in the twentieth century Mr. Chamberlain stepped forward as the man. But the banner? Free trade had raised the banner of universal peace. Could protection compete with that? Mr. Chamberlain believed that it could. He hoisted the flag of the Empire

The propagandists of protection had already during the seventies and eighties discovered the British Empire. They put it into their columns of percentage figures Its performance in these columns was an extremely gratifying one The rate of increase of British exports to the colonies contrasted most favourably with the rate of their increase outside the British Empire. Unfortunately, as we have already seen, tables of comparative percentage increase do not tell the whole truth about the progress of trade. Other tables might have been printed to prove that the relative importance to Great Britain of her chief trading partners was pretty much the same in 1890 as it had been in 1860 [3] Other tables still might have been printed to show

[1] The resolution was proposed by Howard Vincent of the Fair Trade League it demanded barriers not merely against foreign goods, but against foreign immigrants Many of the speakers who supported the resolution called themselves free traders! See *The Times*, 24th November 1887

[2] The minute book of the Birmingham Chamber of Commerce, 18th May 1887, records Joseph Chamberlain's refusal to accept election as president on the ground that the Chamber had recently adopted a resolution in favour of 'fair trade' To this he expressed himself 'opposed in any shape or form'. (I owe this information to my pupil Mr B H Smith)

[3] Fuchs, op cit., p 138, prints such a table, comparing the period 1861–5 with the period 1886–90 'Australasia' had in the interval moved up from sixth to fifth place, but India had moved down from first to second The British West Indies also had fallen from ninth to twelfth The most striking fact in the table is the outstanding increase of trade with the United States. Unfortunately Dr Fuchs did not take the trouble to distinguish exports and imports

that throughout the whole period 1860–90 the proportion of Empire trade to non-Empire trade remained fairly constant at about one quarter, and that it was if anything rather less at the end of the period than it had been at the beginning.[1] The protectionist pamphleteers ignored statistics which were so embarrassing. For they wanted to show that Great Britain held better cards than her foreign competitors, if only she would make up her mind to beat them at their own game. She had her Empire. Here she would find the sufficient, the decisive reinforcement to a policy of national economic defence. She must demonstrate her will to survive, not merely by 'a speedy reform of the policy of the United Kingdom', but by the creation of an imperial *Zollverein*.[2]

The last quarter of the nineteenth century was a period of reviving imperial fervour. But amidst the fervour there was much confusion of idea and purpose. Some men praised the Empire because of its power, others because of its justice, others because of its liberty, others because a noble race was dominant in it. Disraeli tried to impress upon his countrymen the Empire's power and glamour, he

[1] Fuchs (op. cit., Table II, Appendix, p. 400) calculates (again without separating imports and exports) the quinquennial average percentages of Great Britain's Empire and foreign trade respectively, from 1861 to 1890. With the help of Mr. P. Drufft I have continued the calculation to 1935.

The Total Trade (Import, Export, and Re-export) of Great Britain with Empire and Foreign Countries. Quinquennial Averages

	Total foreign countries	*Total British Empire countries*
1861–5	71.7 per cent	28.3 per cent
1866–70	77.0 ,,	23.0 ,,
1871–5	77.3 ,,	22.7 ,,
1876–80	75.4 ,,	24.6 ,,
1881–5	73.7 ,,	26.3 ,,
1886–90	74.2 ,,	25.8 ,,
1891–5	74.8 ,,	25.2 ,,
1896–1900	75.5 ,,	24.5 ,,
1901–5	74.4 ,,	25.6 ,,
1906–10	74.0 ,,	26.0 ,,
1911–15	60.6 ,,	39.4 ,,
1916–20	68.3 ,,	31.7 ,,
1921–5	66.5 ,,	33.5 ,,
1926–30	65.2 ,,	34.8 ,,
1931–5	62.1 ,,	37.9 ,,

The trends of trade since the War are discussed in Chapter III below. It should be observed that the larger empire trade of 1861–5, as compared with other quinquennial periods before 1890, was due in large measure to abnormal imports of cotton from India during the American Civil War.

[2] Resolution of congress of conservative associations 1887, see *The Times*, 24th November 1887.

taught them to glorify the Englishmen's just sway over millions of grateful Orientals. But perhaps they were more deeply impressed by the free self-governing communities overseas, whose spontaneous demonstrations of affection and solidarity were refuting the cock-sure prophecies of the doctrinaires who maintained that adult colonies would fall like ripe fruit from the imperial tree. Unfortunately, Englishmen knew very little about the economic and social structure of these self-governing communities, nor of the impulses which were moulding their policy So before very long they found themselves at cross purposes with the colonies. They were not very clear about their own purposes. What did the new imperial patriotism signify—love of country, or love of more country? In the last two decades of the nineteenth century, Great Britain added to her imperial territory an area roughly equal to the continent of Australia What was her title to so great an increase of possession? Joseph Chamberlain justified the annexations by that very free trade argument which he was already repudiating.

> 'Attention was called the other day', he said, '. . . to the fact that during the last few years we have added 2,600,000 square miles to the [Queen's] territories. .
>
> 'I should be prepared to admit that if only other nations would stand aside it might have been wiser that we should proceed more gradually If we had remained passive, what would have happened? . . . The greater part of Africa would have been occupied by our commercial rivals, who would have proceeded to close this great commercial market to the British Empire. . .
>
> 'We, in our colonial policy, as fast as we acquire new territory and develop it, develop it as trustees of civilization for the commerce of the world We offer in all these markets over which our flag flies the same field to foreigners that we offer to our subjects, and on the same terms. In that policy we stand alone.'[1]

Thus Chamberlain grounded Great Britain's title to her great possessions on her loyalty to the principle of the open door It would of course be naive to imagine that statesmen are invariably very serious in their appeal to principle. Seven months before his eloquent vindication of an open door Empire, Chamberlain had declared himself ready to close the door—provided a sufficient material inducement should be offered.

The self-governing colonies which met in conference at Ottawa in

[1] *Foreign and Colonial Speeches of Joseph Chamberlain*, p. 141 (to Birmingham Chamber of Commerce, 15th November 1896) Germany similarly explained that she was forced to annex colonies because other empires were closing their doors See M. Townshend, *Origins of Modern German Colonization* (Macmillan, 1930), p 36.

1894 had offered the inducement of imperial preference. Chamberlain declared the offer inadequate 'when considered from the point of view of British interests'. It was not that he was unwilling to consider some 'derogation from the high *principles* of free trade'.[1] But a derogation from high principle was not worth while unless it paid handsomely. Chamberlain's argument amounted to this, that Great Britain must be able to count on adequate colonial compensation for her surrender of foreign markets. Imperial preference was inadequate compensation, for it was consistent with the maintenance and even the multiplication of colonial obstacles to British trade. 'A true *Zollverein* for the Empire' was a different proposition, for it would obliterate the separate protectionist systems of the colonies and put in their place a single imperial protectionist system. Mr Chamberlain's imagination kindled. He talked no more about a derogation from high principle. Even free-traders, he declared, ought to approve of the imperial *Zollverein*! The British Empire would take shape as a more rational world, ready to apply within itself the principles of division of labour and free exchange which the larger unmanageable world of foreign nations had rejected. The Empire was big enough to set up business on its own account as a Great Commercial Republic. It would build a common tariff wall against foreigners and pull down its internal tariff walls; it would make itself an 'economic unit' with its factories in Great Britain and its farms overseas.

These hopes were bound to come to grief. They conflicted both with the constitutional and the psychological trends of evolution in the self-governing portions of the Empire. Those who cherished them did not really know the Empire. They realized in a general way that it was colonial liberty which had evoked the spirit of imperial unity, but they did not know what this liberty signified to those who possessed it. Not least among the things which it signified was 'tariff personality'.[2] This was already highly developed, though not as yet quite full grown. Between 1846 and 1859 the colonial

[1] Chamberlain, op. cit., p. 161 (to Canada Club, 25th March 1896). The crucial words were 'A true *Zollverein* for the Empire, although it would involve the imposition of duties against foreign countries and would be to this extent a derogation from the high principles of free trade and the practice of the United Kingdom up to the present, would be a proper subject for discussion.'

[2] Colonies possessing 'tariff personality' may be contrasted with 'conventional open-door colonies' on the one hand and with 'assimilated colonies' on the other. Assimilation rests on the view that the metropolitan country and the colony are *parts of a single extended national area and economic structure*. The concepts of assimilation and tariff personality are not logically identical with those of subordination and autonomy, for a subordinate colony might have a distinct tariff, and an autonomous colony might conceivably renounce this distinction.

legislatures had grasped the right of imposing customs duties—either revenue or protective duties, according to their own ideas of economic good. The right of imposing *differential* duties was for a time withheld from them, for it was clean contrary to the principle of tariff impartiality on which Great Britain's trade policy was based. During the eighteen-seventies, however, the Australian colonies exacted from a reluctant mother country the right of granting preferential customs treatment to each other.[1] It was a harder task to wear down Great Britain's resistance to general extensions of the preferential principle beyond the range of colonial neighbourhood The idea that colonies might negotiate reciprocal preferential agreements with foreign countries to the detriment of Great Britain herself was hardly to be thought of. It would weaken the diplomatic unity of the Empire and destroy its substantial unity as a kind of most-favoured-nation club.[2] The idea that the colonies might exchange tariff preferences with the mother country could not be entertained so long as British policy remained grounded on free trade and most-favoured-nation agreements. Even a unilateral grant of tariff preference by the colonial legislatures was not to be desired. Great Britain could hardly allow her colonies to differentiate in her favour without putting herself in the ambiguous position of appearing to benefit from a policy which she repudiated in principle. Apart from this, she was tied by her treaties with Belgium and Prussia, and she had tied the colonies by those treaties. They asked her to denounce them. They took their stand upon the principle of colonial self-government and pleaded the magnitude of the benefits which colonial preferences would confer on Great Britain. It was Chamberlain himself who answered them. 'Our trade with Germany and Belgium', he said, 'is larger than our trade with all the Colonies combined.'[3] Apart from the principle of trade impartiality, he believed that Great Britain stood to lose more trade by weakening the most-favoured-nation system than she would gain even from colonial preferences which appeared 'magnificent'[4]

[1] It was not till 1893 that the last restrictions were removed The legislative landmarks are 36 & 37 Vic, c. 22, and 58 & 59 Vic, c. 3. And the British government still upheld one limitation on the operation of inter-colonial or inter-Dominion preference—namely, that preferences should not place the United Kingdom in a less favoured position than the direct recipient of them See Cd 5369 of 1910, *Report of the Royal Commission on Trade Relations between Canada and the West Indies*, para 78. For the general evolution of Dominion tariff autonomy and its growth into full treaty power see vol i of this *Survey*, pp 38 ff

[2] See Lord Ripon's dispatch of 1895, printed in A. B. Keith, *Speeches and Documents on Colonial Policy*, vol ii, pp 156–64.

[3] *Colonial Conference 1897*, Cd. 8596, p 10

[4] As late as 1902 Chamberlain said· 'But so long as a preferential tariff, even a magnificent preference, is still sufficiently protective to exclude us altogether, or

Chamberlain reiterated his own proposals—not imperial preference, but an imperial *Zollverein*, not a reciprocal interlocking of separate protective systems, but the creation of a single protective system for the whole Empire. 'Inside the Empire', he demanded, 'protection must disappear'.[1]

Within a few years Chamberlain learnt that in asking for a *Zollverein* he was asking for the impossible. The protectionist governments of the Dominions seized the initiative in the debate on imperial economic policy, the protectionist section in Great Britain resigned itself to following the Dominion lead Let us look at the controversy from the overseas point of view. To a genuine imperial idealist like Alfred Deakin, a *Zollverein* was an impossible proposal. It meant tariff assimilation with Great Britain, a surrender of tariff personality. Tariff personality was an essential element of self-government. It was a mark of constitutional status, a symbol of autonomy But it was something more. Australian democrats valued it for the content with which they were filling it They held to 'the national system of political economy' The ideas of List had penetrated the British Empire; they had crossed the Atlantic, they had entered the Pacific. This happened not because colonial statesmen pursued wide studies in economic theory, and decided that List was a more profound thinker than Adam Smith Statesmen and people saw things as List saw them, and felt about them as he felt about them, before ever they read his book—if they ever did read it The economic problems with which they had to grapple and the social ideals which they cherished drove the overseas democracies—through a struggle of ideas and interests—towards policies of economic nationalism [2] They were not prepared to sacrifice these policies for the sake of an imperial *Zollverein* What then, was the worth of their much-advertised imperial patriotism? The free-trade minority in Australia joined with English free-traders and English protectionists in putting forward a reproachful argument which did not seem easy to answer. 'If you do really believe in imperial solidarity', they said, 'why do you keep on building a barrier against the industry of the mother-country? This is not unity, but disruption. The way to a

nearly so, it is no satisfaction to us to know that you have imposed even greater disability upon the same goods if they come from foreign countries' Cd 1299 of 1902, p 9

[1] *Foreign and Colonial Speeches*, p 161 On the immense constitutional, administrative, and economic implications of such a demand, see the general discussion in Gregory, op cit, pp 17 ff

[2] On the fundamental alliance between nationalism and egalitarian democratic feeling in the making of Australia see W K Hancock, *Australia*, ch iv. Note especially the part played by the protectionist democrat Syme.

united Empire is Empire free-trade.' But Empire free-trade, as the majority of Australians saw it, condemned their country to perpetual economic provincialism and exposed their 'fair and reasonable' standards of social well-being to the attack of British cheapness. They could not pay this price for imperial patriotism without throwing away their national principles. And yet they did sincerely believe themselves to be imperial patriots, and wished to prove it. They hit upon a brilliant debating retort By the doctrine of imperial preference they warded off the *Zollverein* which the English protectionists were preaching, and at the same time snatched the weapon of imperial patriotism for use against the free-traders, both Australian and English 'Surely', they said, 'we peoples of the Empire should treat each other better than we treat foreigners? Surely we should give each other preference? But how can we begin to do this unless we all become protectionists? So, for the sake of the Empire, free-trade England must throw away *her* national principles Even English protectionists must regret the turn the argument had taken; it killed their *Zollverein*. But they had no conclusive reply to it in logic. Before long they were grateful to receive on any terms imperial reinforcements for their insular struggle. In this way the initiative in the imperial economic argument passed to the Dominions

The overseas forces won their first objective in 1897, when the British government, yielding to the importunities with which it was assailed at the Colonial Conference, denounced its trade treaties with Belgium and Germany. This was the first step in the long shuffle of protesting retreat. It seemed at the time a not very important step In denouncing the treaties Great Britain did not repudiate the most-favoured-nation principle, she merely limited the operation of that principle Limitations of one kind or another were already a not-unfamiliar feature of most-favoured-nation treaties, some of them were based on the facts of geographical contiguity or historical association, which were held for example to justify exclusive reciprocal arrangements between Spain and Portugal; others were based on political affinities, which were held to justify preferential arrangements of a similar nature between Cuba and the United States. It was surely by an act of exceptional grace that Great Britain had denied herself the right of pleading the common sovereignty of the Empire as a limiting factor in her most-favoured-nation undertakings, and it was surely no concern of foreign powers if the different parts of the Empire chose to favour each other in their tariff schedules. That was a 'domestic' matter.[1] The whole problem arose

[1] See C. 7553, p. 5 Lord Jersey argued at the Ottawa Conference of 1894, which

out of the constitutional evolution of the Empire, which every lover of freedom ought to applaud. Liberals might regret this little contraction of commercial magnanimity, they could not regret the expansion of colonial autonomy. And what power had Great Britain to prevent the self-governing colonies, now moving so rapidly towards the dignity of nationhood, from making their own tariffs in their own way?

But the Dominions implicated Great Britain in their discriminatory tariff-building by making her a beneficiary of the discrimination. As an immediate sequel to the denunciation of the two treaties, Great Britain became a recipient of tariff preferences granted by Canada.[1] During the next ten years South Africa, New Zealand, and Australia all followed Canada's example.[2] The British might boast that in their dependent Empire (though even here there had been lapses[3]) they had

he attended as an observer, that the treaties of 1862 and 1865 were exceptional and that the Empire must be regarded 'as a unit within which any fiscal arrangements may be made without infringing any concession made in that (the m f n) clause'. An official statement of 1910 laid it down: 'It may now be regarded as a settled principle that trade agreements between parts of the British Empire are to be considered matters of a domestic character which cannot be regarded as discriminatory by any foreign power' (Cd 5369 of 1910, para 122). Nevertheless, opinion in the United States was sometimes restive on this issue. In 1897 Germany challenged Canada's right to differentiate in favour of the United Kingdom, backing up the challenge by retaliation. (See *Correspondence in connection with the German tariff*, Cd 1781 of 1904.)

[1] The Cobden Club, with unbelievable ineptness, awarded its gold medal to Sir Wilfrid Laurier (see *The Times*, 17th August 1897). For a summary of the origins of Canadian preference (going back as far as 1882) see Dewey, *The Dominions and Diplomacy*, vol i, pp 167 ff.

[2] See Gregory, op cit, pp 272–81, for the landmarks in the history of Dominion preferential tariffs.

Canada initiated preference in 1897, and modified it in 1898 and 1907. The Canadian tariff of 1907 was a 'three-line' tariff, its preferences were on specific items, as opposed to a general and uniform preferential rate, India and numerous colonies were included with Great Britain as beneficiaries.

South Africa initiated preference in 1903, and made changes in 1906 and 1916. The preferences were in part specific, in part class rates. Benefits were extended to Canada, Australia, and New Zealand.

Australia gave preferential treatment to South Africa (1906) and Great Britain (1908) only. The Australian preferences to the United Kingdom were from the beginning specific preferences on separate articles.

New Zealand inaugurated preference in 1903 on two principles: (*a*) extending the grant to the whole Empire, (*b*) effecting it by means of surtaxes imposed against specific foreign goods. Changes in 1907, 1908, 1915, 1917 did not touch these principles.

[3] e g (1) In 1904 the Federated Malay States instituted a preferential export duty on tin ore shipped for smelting to the United Kingdom. (2) The joint effect of an Order in Council in 1898 fixing maximum duties on British imports to Rhodesia, and of the raising of the Rhodesian tariff in 1906, was to give from that year onwards preferences to British imports. (3) The United Kingdom not only sanctioned the West Indian preferences to Canada in 1913, but demanded to share in them. See note 1 on p. 84, above.

maintained intact the principle of the open door. But they could not deny the ostensible profits which came to them through the closing of Dominion doors Even if Great Britain had kept her own free-trade virtue unsullied, she was making something out of the oblique practices of her kindred overseas. British free-traders sought comfort in the argument that she was making precious little, perhaps nothing at all. This argument brought a sharp retort from the Dominions. The Dominions believed themselves to be generous, but they were not sufficiently generous to persist quietly in an unrequited generosity. They magnified the value of the tariff concessions which they granted, and reproached Great Britain for allowing imperial preference to remain a one-sided affair. The controversy sometimes threatened to become a wrangle British calculations of the value of Dominion preferences were sharply at variance with Dominion calculations. British controversialists insinuated that the preferences were at most a bare return for the favours which Dominion governments received in the British capital market, and for the burden of defence which the British taxpayer shouldered on behalf of the luckier Dominion taxpayer Dominion controversialists insisted that the discussion was not greatly concerned with these minor matters, but with tariffs. Was it true, they asked, or was it not, that the Dominions in their tariff-making treated the United Kingdom as a revered parent, and received from her in return exactly the same treatment which she meted out to foreigners? British statesmen wearily repeated that protective and preferential duties were contrary to the principles of British policy. 'They are not contrary to your principles', retorted the devoted but merciless children of the Empire, 'when it comes to the receiving of preferences Only when it comes to the giving of them ' To this there was no logical reply.[1] The real breach in principle had occurred in 1897. All that British free-traders could do was to copy the earlier example of the colonial protectionists, and assert for the parliament and constituencies of Great Britain the elementary right of fiscal autonomy. The representatives of the United Kingdom at the Imperial Conference of 1907 warned their overseas colleagues that the quickest way of wrecking imperial unity would be overseas intervention in the domestic controversies of Great Britain.[2] Sir Wilfrid Laurier readily agreed that the fiscal policy of Great Britain was 'a matter which is altogether in the

[1] The first attempt at scientific and impartial analysis is to be found in a brief appendix to D B Copland and others, *The Australian Tariff* (Melbourne, 1929)

[2] Cd 3523 of 1907 Mr Churchill could not conceive 'any process better calculated to create an anti-Colonial party'

hands of the British people'[1] General Botha ventured the opinion that, since the Transvaal had been granted responsible government, the same right might justly be conceded to Great Britain[2] But the ardent Australian advocates of the new imperial plan could not school their lips to silence Alfred Deakin, the Australian Prime Minister, was willing to admit 'that each of the parties to the bargain must be the best judge of its own gain', but he was not willing to admit that imperial preference was a mere bargain, a mere question of gain It was a great plan of imperial unity, it was 'a political gospel'[3] Deakin, and other Dominion leaders less able and less sincere than Deakin, preached their political gospel inside the conference room and outside it They offered themselves as standard bearers in the battle which a section of one of the political parties of Great Britain had been fighting in the constituencies ever since Chamberlain stepped forward as leader in 1903

Was the unity of the Empire really an issue in this battle or was it not? In the eyes of free-traders the argument of the overseas champions of preference must have seemed to be rooted in a colossal egoism. It must have seemed to be on a par with the cool suggestion of Deakin in 1887, that the British government should for the future annex whatever territories the self-governing colonies wished it to annex, regardless of its difficulties and obligations within the world-wide society of nations 'We hope', Deakin had said then, 'that from this time forward, Colonial policy will be considered Imperial policy'[4] The hope, evidently, was not confined to the sphere of foreign affairs At all succeeding conferences Deakin, or others like him, voiced the same hope in the matter of commercial policy. Sometimes the expression of hope sounded like a demand To the majority of British statesmen, whose free-trade policy could still rally the constituencies, this attitude revealed a complete ignorance of the economic structure of Great Britain, and a complete disregard of her interests The remnant of free-traders who still survived in the Dominions interpreted the policy of their governments still more cynically. Melbourne importers and Riverina pastoralists had seen their economic preconceptions confirmed by first-hand observation of

[1] Cd 3523 of 1907, p 411 [2] Ibid, p 304

[3] Ibid, pp 239, 351 ff Deakin's sincerity is apparent in all his oratory, and it showed itself in his attempt, after the Liberal government had at the conference of 1907 rejected preference, to revive the Hofmeyr proposal of 1887 for a low uniform tariff throughout the Empire on foreign goods only, to be spent on imperial purposes only But Deakin's colleague, Sir William Lyne (ibid, p 316), spoke in a strain of petulant and greedy egoism 'If I had a boy, I should look after him, before I looked after a foreign boy.'

[4] *Colonial Conference* of 1887, C 5091, p 25. Cf this *Survey*, vol i, pp 38 ff.

the local scramble for tariffs They believed that imperial preference was only a shoddy cloak to cover the egoism of sectional interests. They stressed its propaganda value in the campaign for higher tariffs, and argued—as Chamberlain himself had once argued[1]—that the comparative advantage which Dominion tariffs gave to the British manufacturer was trifling in comparison with their penalization of the British manufacturer in the interest of local industry. Moreover, these free-traders said, the propagandists for preference were looking forward to a day when the excessive costs of industrial protection in the Dominions would be passed on to the British consumer. They hoped to buy off the opposition of the farmers by securing for them a sheltered market in Great Britain: if the British were silly enough to institute preferential food taxes, they would be carrying the burden of an artificial system in which every section of Dominion producers would have a vested interest. In this strain the overseas free-traders continued their sceptical analysis. In tone it corresponded exactly to the comment of continental protectionists on the missionary activities of Cobden. It explained a good deal, but it did not explain everything It did not explain the evangelical ardour with which democracies of the British stamp pursue the contrasted policies to which, in contrasted circumstances, they adhere National protection and imperial preference had for Deakin the same quasi-religious significance which universal free trade had had for Cobden Cobden had hoped to reach universal peace by the way of free trade, Deakin, with an equal sincerity and an equal credulity, believed in imperial preference as the royal road to a united Empire.

There was among the British protectionists a similar mixture of sectional interest, political idealism, and illusion In the struggle for tariff reform, business men, politicians, and academic persons joined forces Mr W. A S. Hewins, the director of the London School of Economics, was an academic person of prominent position, impressive administrative ability, and warm enthusiasm The reaction against *laissez-faire*, which had carried many of his contemporaries to socialism, had made him a believer in imperial integration 'The moving principle should be', he wrote later in his memoirs, 'not the interest of the consumer, but the solidarity of the Empire'.[2] It was this principle which in the late eighteen-nineties began to dominate his activity, driving him from academic quiet into the bustle of political advocacy on the platform and in the press In the end he became a close collaborator of Chamberlain. The story of how this

[1] See note on p 84, above

[2] W. A. S Hewins, *The Apologia of an Imperialist* (Constable, 1929), vol i, p 5.

collaboration began is a revealing one 'I do not pretend to be an economic expert', Chamberlain said. 'I once read Mill and I tried to read Marshall. You must supply the economic arguments.' In return, Chamberlain supplied to the university teacher some instruction in the compromises inseparable from politics 'You must understand', he said, 'the difference between a scientific tariff and one you can get through the House of Commons.' And he explained his own position as an imperial idealist representing a Birmingham constituency 'He said that, as I knew, he had taken up this question solely from the imperialist standpoint, but, he added, "We shall have to do something for the manufacturers"'[1]

What had the protectionist ambitions of Birmingham manufacturers to do with imperial preference? Strictly speaking, nothing at all. The Dominions wanted Great Britain to impose preferential duties, not on manufactured articles, which they did not export, but on the food which they did export Still, the Birmingham manufacturers might argue that food taxes, by increasing the cost of living, would impose a new burden on industry, a burden for which the tariff ought to compensate them. Here was the basis for a pact of mutual assistance between the distinct protectionist interests of agriculture and industry. From the time of the Fair Trade League up to the early years of the twentieth century the protectionist movement had been extending its activities from the cities to the country. Did British farmers care very much about imperial preference? They cared a great deal about protection for themselves against overseas competition, and would willingly show enthusiasm for the interests of Dominion farmers if this enthusiasm would help them to get public support for their own interests Yet the time might come when they would demand protection against Dominion farmers also Imperial preference as the Australians practised it, so Chamberlain himself had once complained, was but a trifling mitigation of the policy of 'Australia first'[2] Might not the Australians themselves on some future day level the same complaint against Great Britain?[3] It would certainly be an error to carry the sceptical analysis so far as to disregard the disinterested imperial enthusiasm of men like W A. S. Hewins and Joseph Chamberlain himself, or to deny that this enthusiasm played a positive part in moulding events. But it would be a still greater error to disregard the hard core of interest at the centre of the new imperial plan. In Great Britain, no less than in the Dominions,

[1] Ibid, vol. i, pp 68, 69.
[2] See p 84, above
[3] See below, Chapter III, section iv.

this hard core of interest was not really imperial at all. It was 'the national system of political economy', seeking to project itself outwards into a nicely balanced structure of bartered shelter. And the bartering was not merely an affair between governments, each distinct national system was itself influenced by the barter, conflict, and coalition of those sectional interests which pushed and manœuvred with and against each other.

Far more research needs to be done before any summing up on these issues can have any pretension to exactitude [1] But from the time of the Fair Trade movement to the days when the Chamberlain family takes the lead in the struggle for national protection and imperial preference, Birmingham has the same symbolical importance which Manchester possessed in the middle of the nineteenth century. Birmingham never thought of competing with the standards set by Manchester in theoretical articulateness. Yet one might almost speak of a Birmingham school One might almost dramatize the past half-century of British commercial policy as a struggle between free-trade Manchester and protectionist Birmingham—or better still, as a three-cornered struggle, with the old individualist-cosmopolitan City of London joining forces with Manchester to keep Birmingham in check Birmingham was destined in the end to win, and Birmingham's defeated rivals were destined to look for light and leading to the Birmingham school But in the years before the Great War the old Manchester and the old City still governed British commercial policy, and beat back Birmingham's attacks upon the constituencies.

These attacks were premature The Birmingham school was too hasty in its anxiety to escape in an imperial lifeboat from the ship of world trade, which was very far from sinking It advertised the growth of foreign tariffs, but did not advertise the large volume of trade which Great Britain continued to enjoy with protectionist nations It denounced foreign evasion of the most-favoured-nation clause, but did not calculate the benefit which Great Britain continued to derive from that clause It stressed the comparatively slow increase of Great Britain's exports to foreign countries and the comparatively rapid increase of her exports to Empire countries, but fell into the percentage fallacy.[2] It over-estimated the direct obstacles which hindered British trade in foreign empires. It proclaimed that the day of open-door empires was over. But there was still tariff equality for all nations in the Dutch colonies and in the German ones. In China, the public declarations of Mr Hay had at the begin-

[1] Research of the kind referred to on p 80, note 2, above

[2] See above, p 80 and note 3.

ning of the twentieth century ranged the United States of America alongside Great Britain in resistance to policies of monopolistic partition. In the Congo basin the society of trading nations was learning how to close the gaps which the King of the Belgians had so easily discovered in the document of 1885, and was thereby accumulating experience which would later on be useful to the Permanent Mandates Commission It was, in short, too early to expect the champions of the Great Commercial Republic to give up the struggle Nor had the staple export industries of Great Britain any intention of risking a change of policy which might hamper their competitive strength.

The Birmingham school painted an exaggerated picture Yet the picture did nevertheless correspond in some degree to a significant reality. Foreign tariffs were climbing upwards Foreign nations were evading the intention of the most-favoured-nation clause. Some foreign empires, if not all of them, were closing their doors. The French, the Russians, the Portuguese, the Americans were pursuing in varying degrees policies of tariff assimilation or preference which emphatically restricted the area open on equal terms to the commerce of all nations All the imperial powers, including Great Britain herself, were giving through the routine processes of administration or through the allocation of contracts an increasingly important preference to their own traders, investors, and manufacturers [1] At the same time, internal changes in Great Britain's economy were at work alongside the external factors to diminish the preponderant weight of the old staple export industries

These were the tendencies on which the Birmingham school laid stress There was ample material in them for a propaganda which advertised 'the menace of foreign competition' and sought the support of British manufacturers and their work-people by playing upon their fears But the propaganda appealed no less eagerly to their hopes and their pride. For were they not also citizens and rulers of a great empire? Was there not room enough for their capital and labour, their courage and their skill, in Great Britain's 'vast imperial estate'? So long as the majority of Englishmen still saw the world, or believed that they could shape it, according to the pattern of liberal doctrine, these arguments and phrases evoked no deep popular response. They found a wider circle of listeners and called forth a

[1] Hewins, op cit, vol i, p 37, possibly exaggerates 'the enormous weight of administrative encouragement necessarily given by the mere existence of our world-wide Empire', yet it has been calculated that 'If as much as 60 or 70 per cent of the trade of an Open Door colony goes to the Mother Country this is no *prima facie* evidence of discrimination'. See B Gerig, *The Open Door and the Mandates System* (Allen & Unwin, 1930), p. 65.

more passionate response when the precarious unity of liberal civilization was split by the Great War They fitted more naturally than nineteenth-century teaching did to the passions of a twentieth-century democracy fighting for its existence.

V

Economics of Siege

A nation which in reality, or even in imagination, is suffering the stress of war thinks of itself as a city besieged. The problem of supply dominates its economic argument and contrivance There are some deficiencies which spell hardship, there are others which spell defeat. By desperate exertion and sacrifice it struggles to ward off the danger. Its passion to survive engulfs the faculty of critical reason. An emotional torrent, whirling through narrow channels of heroism and hate and fear, drowns criticism and even memory, or leaves them stranded in the waste land through which the torrent rushes. The besieged citizens cannot or will not remember those customary activities of busy commerce in an unsundered world, which have been the foundation of their peace-time comfort and a preparation of their war-time strength.

Our concern in this inquiry is not with the Empire's economic effort during the years 1914–18, but with the plans or dreams for the Empire's economic future which were made or imagined during those years of struggle

Our picture of a besieged city may seem fanciful, but without some imaginative support to the understanding we can hardly recall the wild clamour which shouted down economic foresight during the Great War.[1] It was a time when the most fantastic financial impossibilities were seriously propounded Germany would pay the whole cost of the war, and the Allied nations would never again trade with Germany; the British West African colonies would develop an export trade large enough to pay off the British debt, and the British Empire would make itself independent of foreign imports. These and many similar aberrations from reason can only be understood if they

[1] But see Edwin Cannan, *An Economist's Protest* (London, 1927) a collection of papers showing the attempt of economic reflection to make its voice heard The same attempt found regular expression in the *Economist*, and occasional expression in the correspondence columns of *The Times*. e g 5th July 1916, a letter with many signatures protesting against the economic resolutions of the Allied Conference at Paris in June 1916

are seen in their context of national danger and exertion, of leaders struggling desperately with an emergency which almost overwhelmed them and of a people absorbed in the primitive issues of life and death. This absorption pressed most heavily on the United Kingdom, which lived under menace of starvation; but there was no part of the British Empire which could escape it The Empire must mobilize its economic power to win the war But after the war? The Empire must remain mobilized to dominate the peace This demand is recorded in a vast mass of print. The very titles of pamphlets and articles bear testimony.[1] 'The war and the parting of the ways a short study of the future of the British Empire '[2] 'A self-supporting Empire with a Foreword by Sir Edward Carson '[3] 'Let nothing be wasted--produce everything we can in the United Kingdom and our grand Empire, and increase British trade '[4] Scores of pamphlets, whose titles are less striking than these, make ample amends in their excited text they are full of clarion-calls and manifestoes—they demand 'a self-contained empire for defence and subsistence',[5] 'an economic unit for purposes of commerce and defence'[6] Some of these pamphlets bear the signatures of Dominion leaders An ex-minister of the Crown in New Zealand demanded 'a pure British policy' which would exclude from the Empire foreign immigrants and attract British settlers, exclude foreign capital and pump in British capital. 'I am not laying down a policy of hate', declared the New Zealander, 'I am laying down a policy of self-preservation '[7] The Prime Minister of Australia, Mr W. M Hughes, surpassed all rivals in the ardour and recklessness of his patriotic imperial propaganda From the platform and through the press he denounced the liberals, trounced the free-traders, and called for a 'positive' economic policy which would close the Empire's doors to the foreigner 'I cannot understand', he cried, 'the attitude of those Britons who want to continue the open door.' The *Empire Review* thanked God for the advent of Mr. Hughes, a plain, clear-headed patriot from the Dominions where men knew how to get things done,

[1] I have examined about fifty titles dealing with imperial economic discussion in the war years, listed in the catalogue of the Royal Empire Society Not all of them have the tone indicated in the text (there are, for example, Cobden Club pamphlets), but the quotations represent the tone of the great majority This was also the tone of the press, including even some of the more critical periodicals

[2] By C Luke (1915)

[3] By E Saunders (1918)

[4] By A. Sydenham (1917)

[5] From J C Simpson, *An Imperial Trade Policy* (1917)

[6] From O E Bodington, *Scientific Basis for Imperial Trade Policy* (1918)

[7] F M B Fisher, 'Imperial Trade', in *United Empire*, vol ix, pp 69–91 (1918) For a more violent article from a New Zealand pen see *Fortnightly Review*, vol civ, pp 698-710 (1915), 'Our Colonies after the War', by W Creswell.

a real statesman, quite unlike the hesitating university-bred persons who still cumbered British politics, waiting and seeing, not yet understanding that 'henceforward we must be a self-contained Empire not only in name but in being' [1]

Yet there were in the programme of imperial self-sufficiency ambiguities which even impassioned propaganda could not conceal Men were ready to do, and were compelled to do, in war-time things which they would not, and could not, do in time of peace Pressing emergency made irrelevant for the time being the familiar dispute between the national and the imperial versions of the protectionist creed, it did not conclude the dispute Propagandists were taking sides in it even while they were unaware of its existence A British pamphleteer demanded in one breath a 'positive policy to include the whole Empire, locking it together in one solid union against the enemy', in the next breath he demanded the maximum of self-sufficiency for the British Isles. 'Whatever it is impossible to produce, or produce in sufficient quantities, in these islands, must be sought for in the Dominions' [2] Was it likely that the Dominions would, on reflection, applaud this forecast of their economic function, the meagre privilege of filling gaps in Great Britain's projected insular production? As soon as men began to plan for peace, as soon as disciplined thought resumed the work which clarion calls had interrupted, it became clear that anti-German feeling and national feeling and imperial feeling were distinct emotions with distinct and sometimes conflicting economic implications

Anti-German feeling, if it were to be made the foundation of economic organization, implied a *bloc* including all the Allies who were banded against Germany. In June 1916 the statesmen of the Allies met at Paris and pledged their countries to stand together against Germany in peace no less than in war Alleging that Germany and her satellites were themselves preparing a plan of economic conflict to follow the military conflict, they agreed upon principles of 'economic defence' to fit both the transitional period after the war and the time of real peace which would some day return. They did not find it difficult to agree upon concrete obligations during the transitional period. They agreed to exclude Germany from their most-favoured-nation system, to refuse her access to raw materials which they wanted themselves, to erect barriers against her goods. But they found it harder to agree on 'the permanent measures

[1] See the *Empire Review*, vol xxxii, pp 253–61.

[2] A E Duchesne, 'The Commercial War', in *Empire Review*, vol xxx, pp 205 ff, 311 ff, 346 ff. (1915).

of mutual assistance and collaboration' which would continue to unite their peoples when real peace returned. They left their long-range policy completely vague.[1]

Presumably this vagueness would be corrected by subsequent study. The Paris resolutions had a sequel in the following year when Mr. Lloyd George's government appointed a committee, with Lord Balfour of Burleigh as its chairman, to consider commercial and industrial policy after the war. The committee was instructed by its terms of reference to pay special attention to the principles affirmed at Paris. But it was also instructed to pay special attention to the safeguarding of essential British industries, the recovery of lost British markets and the winning of new ones, the development of Empire resources, and the safeguarding of Empire supplies from foreign control. The emphasis had shifted from Allied solidarity against the enemy to British protection against the foreigner and to the problem of imperial supply In the final report of the committee Allied solidarity was almost entirely forgotten and imperial questions were surveyed perfunctorily at second hand,[2] it was the industrial and commercial situation of Great Britain which took the dominant place. Among the recommendations of the committee the following had fiscal implications namely, that there should be anti-dumping duties, that certain industries which were 'key' or 'pivotal' industries 'should be maintained in this country at all hazards and at any expense', that other 'carefully selected' industries should be awarded tariff protection The committee also recommended that all new duties should be made preferential in favour of the Empire. This recommendation confirmed a gesture which it had already made in 1917. On the eve of the Imperial War Conference of that year it had hastily issued an interim report advising that 'His Majesty's Government should now declare their adherence to the principle that preference should be accorded to the products and manufactures of the British Overseas Dominions in respect of any customs duties now or hereafter to be imposed on imports into the United Kingdom'. But as the articles which the committee thought deserving of tariff protection were, almost exclusively, manufactured articles which the Dominions did not export, there was very little substance behind its

[1] *Recommendations of the Economic Conference of the Allies held at Paris on June 14, 15, 16, and 17, 1916* Cd 8271, 1916

[2] The committee drew upon the work of the Dominions Royal Commission which is discussed in the following pages it found the unitary trend of imperial economic policy desired by that body too strong for its taste See its reflections on self-sufficiency (p 27) and free investment (p 30) and also its criticism of the suggested Imperial Development Board

imperial gesture. Its final report was a document of Great Britain's national economic policy.[1]

Imperial economic policy, as distinct from national economic policy, was the object of study and report by another body, the Dominions Royal Commission The commission had begun its work two years before the war and had thoroughly investigated the problems of every Dominion. Its origins may be traced to the imperial enthusiasm of the Australian Prime Minister Deakin,[2] and its com-

[1] *Final Report of the Committee on Commercial and Industrial Policy after the War.* Cd 9035 of 1918 Four members of the committee recorded their opinion that the protectionist recommendations of the majority did not go far enough, and recommended a general tariff But they added 'We do not suggest the imposition of any additional tariffs upon foodstuffs, or any tariff upon raw materials'—a reservation which reveals the hollowness of the imperial preference gesture But there is no such hollowness of content in the national-protectionist proposals which are the core of the report. By studying the report, together with the evidence, and also the departmental reports on specific industries which were being issued at the same time by the Board of Trade, it would be possible to compose a very clear and revealing picture of the alinement of British industrial interests on the fiscal issue at this period Generally speaking, the coal, shipping, and textile industries still supported free trade, but the last-named was not unanimous. 'The cotton industry as represented by a majority of employers does not desire a tariff for its own protection, nor does it favour a general tariff owing to the fear that, if the effect of a tariff were to raise the cost of production, efficiency in competition would to that extent be handicapped' But in the woollen and worsted industry there was a division of opinion. Only the fine-quality producers were emphatically in favour of free trade, the carpet section was emphatically protectionist The silk industry was in favour of a substantial tariff The linen industry favoured a graduated scale of duties discriminating between allies, neutrals, and enemies The jute industry wished to protect itself by raising the cost of supplies to its competitors, this it hoped would be done by preferential export duties imposed by India In the hosiery and glove trade, the sections are divided These examples are sufficient to indicate the value of the material awaiting the examination of a future economic historian

[2] At the Imperial Conference of 1907 Deakin was invited, after his proposals for imperial preference had been rejected, to suggest another approach towards his ideal of imperial economic integration. 'Practically on the spur of the moment' he suggested a joint fund, with a joint board to administer it, for the purpose of improving imperial communications His proposal widened into a plea for continually planned imperial development This proposal, too, was rejected, but the idea reappeared at the Imperial Conference of 1911, when the British government suggested a commission to report on the resources of the self-governing Dominions and their development, on the relation between the production and consumption of food and raw materials in the self-governing parts of the Empire (including the United Kingdom as regards consumption), on the trade of the Empire *intra se* and *extra se*, on the trade of the Empire as affected by laws other than fiscal laws, on the possibility of improving it by means not involving tariff changes.

The Dominions Royal Commission was appointed by the King on 12th April 1912 and issued its final report in 1917 (Cd 8462 of 1917) It also issued a voluminous series of interim reports dealing with special subjects (e g. migration, the food and raw material requirements of the United Kingdom, &c) and with the individual Dominions These reports, and the minutes of evidence, are for the economic historian a mine of valuable material.

position in some degree reflected the changing constitutional structure of the Empire, for side by side with the six representatives of the United Kingdom were single representatives from Canada, Australia, New Zealand, and Newfoundland It wrote its report when the spirit of war-time unity in the Empire was at its height. In this report, if anywhere, we shall expect to find the emphasis laid upon a common imperial interest as distinct from separate national interests. 'The Empire as a whole' is a phrase which runs like a refrain through the commission's report

The report opened conventionally enough with an analysis of the external trade of Great Britain and the self-governing Dominions, so presented as to introduce the familiar plea on behalf of the British manufacturer. From the figures which the commission quoted, it would appear that the Dominions were selling to the United Kingdom £52,000,000 more than they were buying from it, and were buying from foreigners £61,000,000 more than they were selling to them, that they were sending more than half their raw materials and foodstuffs to the British market, and were taking more than half their manufactures from Great Britain's competitors The commission pleaded for more reciprocity on the part of the Dominions This was a plea which in normal times would have infuriated them, they would (not without reason) have rejected the principle on which the figures were selected, and have advanced equally questionable statistical arguments of their own, the familiar wrangle would soon have been in full swing.[1] But it was war-time, and foreigners were out of favour, the argument might pass Besides, the commission had more original matter to offer and more exciting propositions to advance. What most attracted attention was its survey of the natural resources of the Empire and its handling of the problem of supply.

The commission had spent four years in surveying the resources of the Dominions and it emphasized with great detail their actual and potential wealth It praised the steps which had already been taken

[1] Dominion spokesmen might have criticized the statistical picture compiled by the commission for the years 1901–13 from many points of view, e g (i) that it dealt with 'visibles' only and not 'invisibles', thereby falsifying the situation with regard to the balance of payments to the prejudice of the Dominions, who made large payments in interest and for services, (ii) that even in dealing with 'visibles' it made no allowance for the exceptional position of some Dominions and the effect of this on all the Dominions when lumped together—e g Canada's £89,000,000 of imports from the U S.A as compared with the £42,000,000 of her exports to that country, (iii) that it did not allow properly for the re-export of Dominion produce from the United Kingdom, (iv) that there were anyway large discrepancies in the figures of exports and imports compiled in the different countries concerned For a demonstration of this last point see A G B Fisher, 'The Balance of Trade between South Africa and Australia', in *South African Journal of Economics*, March 1937.

to mobilize that wealth for the struggle against Germany.[1] But it complained that the governments of the Empire had not as yet supported each other in the planning and execution of a single co-ordinated effort. They must learn to improve their machinery of control and to clarify their objective, and they must learn to do this, not only in war but in peace. In peace as in war the proper objective of economic policy in every part of the Empire was the power of 'the Empire as a whole'.

> 'The success of the action achieved during the war', the commission declared, 'suggests that it is expedient that the Governments of the Empire should take steps, as soon as conditions permit, to secure the development of their natural wealth towards a definite and recognized object In our opinion it is vital that the Empire should, so far as possible, be placed in a position which would enable it to resist any pressure which a foreign Power or group of Powers could exercise in time of peace or during war in virtue of a control of raw materials and commodities essential for the safety and well-being of the Empire, and it is towards the attainment of this object that co-ordinated effort should be directed.'[2]

In this sentence the economics of siege affirm themselves as permanent policy on an imperial scale. It will become apparent, as the argument is followed farther, that the economics of siege are also the economics of blockade. An empire which sets out to secure exclusive supply for itself is threatening the supply of 'the enemy' and intimidating 'the neutral'. When we seek to make ourselves independent of the foreigner, we are frequently seeking at the same time to make the foreigner dependent upon us. In economics, as in politics, it is not always a simple matter to draw the line between defence and aggression.

Certainly, a reader who was not a British subject might sometimes fancy, as he followed the argument of the commission, that he was listening to the menacing growl of the besiegers rather than to the frightened whimper of the besieged. The commission divided the Empire's commodities into three categories. In the first category it placed those materials of which the world's requirements were mainly

[1] Cd 8462, para 314 'In its broadest aspect the policy has been to establish prohibitions of exportation coupled with a system of licensing so as to ensure that so far as necessary the whole of the exports of commodities essential for the war should come under Government control both as regards quantities and destination In many cases, however, still more energetic action has been necessary in order to secure the absolute command of certain classes of goods' Among these classes were copper, lead, and zinc, and outstanding as an example of 'more energetic action' was the Australian control of base metals.

[2] Ibid., para. 327.

or wholly produced within the British Empire. It enumerated the chief items of the imperial monopoly—Canada's nickel and cobalt and asbestos; New Zealand's kauri gum and phormium fibre; South Africa's diamonds and ostrich feathers, India's jute, the palm products of West Africa and the plantation rubber of the eastern colonies. In addition, the Empire produced over 40 per cent of the world's wool, and 60 per cent. of its merino wool What should the Empire's policy be with regard to these first-category products? The commission chose its words delicately.

> 'It is not difficult', it reflected, 'to imagine situations, even in times of peace, in which it might become desirable to use the possession of these assets as an instrument of commercial negotiation. The practical monopoly of potash which Germany possesses has enabled her to exert pressure on other countries in the past. The possession of assets such as the Canadian asbestos and nickel supplies could be used in the British Empire as a means of economic defence '[1]

Economic defence—it is to an impartial eye too much a phrase of self-justification, economic struggle would have been more matter-of-fact. What the commission was really suggesting (but the legalistic word had not yet become popular) was that the British Empire should (most politely) use its monopoly powers to impose 'sanctions' on behalf of its own interests

In the commission's second category were comprised all those commodities of which the Empire's consumption was roughly equivalent to the Empire's production. But this equivalence did not mean actual supply; many Empire producers of these commodities sold to foreigners, more Empire consumers of them bought from foreigners. Here was an opportunity of shaping economic activity into a satisfactory conformity with the political relationship. In the emergency conditions which were likely to follow the war there would probably be world shortages of things like mutton and beef, butter and cheese, these shortages would be most acute on the continent of Europe, and governmental activity would be necessary in order to keep the good things of the Empire inside the Empire. The long-term problem would be to eliminate from the United Kingdom market Argentinian or Danish or other foreign suppliers of commodities which the Dominions could supply.[2] Such a policy was well calculated to please Dominion producers of these particular goods, for a sheltered market which is also a sufficient market has rare attractions. The attractions would appear less obvious to the consumers of the United Kingdom, and to those classes of its people which had trade connexions with

[1] Ibid, para. 335 [2] Ibid, para 342

Denmark or investments in Argentina. They would also appear less obvious to producers of first-category commodities, who were dependent for their prosperity on the purchasing power of consumers outside the imperial ring. The commission thought it wrong that economic enterprise should wander outside the ring except under the direct pressure of necessity. There were certain commodities whose origin and eventual destination were both within the Empire, but whose industrial transformation had in the past given occasion for undesirable deviations outside the political frontiers. These unnecessary and dangerous wanderings from the strait and narrow path which led from Empire producers to Empire consumers must be stopped.[1]

There was, finally, a third category of commodities, in which Empire production was inadequate for the supply of Empire demand. Here foreigners brandished the weapon of restriction and the Empire lived under menace.[2] How should the Empire defend itself? What must it do in order to safeguard its 'economic independence'? It must be both resolute and versatile. There were some shortages which it might make good; there were, on the other hand, wasting assets—petroleum probably was one of these—whose decline could not be arrested. The first need was a detailed exploration of all possible resources. The second need was conservation. Thereafter a varying strategy must be employed. A long-range forestry plan persistently pursued throughout a generation or more would in the end make the Empire self-sufficient in timber and other forest products. In other spheres far quicker results could be achieved. Cotton was the outstanding example among agricultural crops whose harvests could rapidly be increased by making sufficient provision for research into climate and soil, by the wise direction of investment, and by the planning of productive technique.[3] But the commission realized that, even when science and policy had done their best, the Empire would still be unable to supply from within its own frontiers some of the commodities of which it had economic need. 'In such an event', it suggested, 'further investigation or research would be necessary to produce possible substitutes.'[4] It cited as an example

[1] Cd 8462, para 347 Zinc was an example of a commodity important for industry and defence which had thus wandered the Australian product had been worked up in Germany (this had been stopped), the Canadian product had been worked up in the United States (and this was not yet completely stopped)

[2] Ibid, para. 352

[3] Ibid, para 362 The United States supplied then 70 per cent of the crop, and nearly all the spinning machinery of Lancashire was adapted to American cotton, there was at the time a world deficiency of cotton

[4] Ibid, para 365.

the production of nitrogen by fixation from the air, which had enabled the Germans to compensate themselves for the interruption of Chilean supplies. Might not the Empire similarly make itself economically independent of German potash by producing a substitute from Canadian kelp? The commission did not press optimism to an extreme. It admitted the possibility that no adequate substitutes might be found for some commodities, such as platinum and quicksilver, which were of great economic and military importance and in which Empire supplies fell short On the commission's premisses of 'economic defence' in a world of strife, the logical remedy for these deficiencies was, by conquest or other means, to increase to the extent necessary for self-sufficiency the supplies under the Empire's control. But logic so drastic as this, if it finds expression at all, is more likely to express itself in action than in a public document. The commission was content to recommend that Great Britain should by a judicious diffusion of capital investment multiply the foreign sources of supply, it was unlikely that a number of scattered nations would have the will or the power to take concerted action of a kind to endanger or inconvenience the Empire.[1]

In a series of chapters based upon its careful preparatory studies, the commission dealt concisely and realistically with research, migration, communications, marketing, commercial practice and legislation, development, investment, and other important topics. The specialist student of any one of these topics will find it worth his trouble to examine the appropriate section of the report and the evidence on which it was built But we are concerned here with the governing ideas which inform every section of the report. No document of modern times has stated with such conviction, ability, logical consistency, and grasp of fact the argument for imperial self-sufficiency. And yet the argument broke down. It broke down because its impressive logic was built upon two assumptions which had no sure foundation in historical reality. The commission assumed that the distinct self-governing communities of the Empire had the will to shape themselves as a single economic unit. It also assumed that they had the power to do so.

The commission carefully refrained from making any immediate political or constitutional suggestions which might be thought to threaten the national self-government which every Imperial Conference acclaimed as the glory and strength of the free Commonwealth of Nations. Yet it did not doubt that this confederate Commonwealth was willing to pursue permanently, through all its economic ramifi-

[1] Ibid., para 369.

cations, the power policy of a unitary empire. It assumed the existence of a single imperial purpose which needed little more than expert guidance to make itself effective. It planned the erection of an Imperial Development Board to give this guidance. Some day, perhaps, the nations of the Commonwealth would entrust to this authority a part in the actual shaping and ordering of their economic destinies.[1] There was no sound basis for this prediction, nor for the speculations which had preceded it. The trend of historical development—if the abnormal emergencies and efforts of the War had not concealed it from the commission—pointed plainly in an opposite direction. No sooner was the War over than the Dominions hurried to secure the title-deeds of their separate nationhood, within a few years they had broken down the emergency institutions and practices which had for a brief period created the impression of a unitary structure in foreign policy and war.[2] It was certain, despite their agitation for imperial preference, that they would reject a unified economic system no less emphatically than they had rejected the unified political system. Their self-government had always signified to them 'the national system of political economy'. The Commonwealth of Nations, in its economic aspect no less than in its political one, was taking shape—to quote Mr. Baldwin's phrase—as 'a network of contacts'.[3] This network was intricate and intimate; but neither the Dominions, nor Great Britain herself, intended that it should be a steel mesh after the pattern drawn by the Dominions Royal Commission—a mesh which would drag the parts of the Empire so closely together as to snap many of the threads which joined them severally to the external world.[4]

The nations of the Commonwealth lacked the will to fashion themselves as a self-sufficient imperial unit. They also lacked the power to do so. The geographical situation of Canada as a neighbour of the United States on the North American continent should by itself have demonstrated to the Dominions Royal Commission the

[1] The Imperial Development Board would be advisory 'at the present stage'. But the commission would 'hesitate to restrict the future activities of a new and to some extent experimental organization . . . If at some future time the Governments of the Empire . . . desire to delegate any administrative duties to it, we see no inherent difficulty in giving effect to such a wish.' The composition of the Board was to be: seven members appointed by the United Kingdom (to represent not only itself but India and the Crown Colonies and Protectorates) and one member from each of the five Dominions. The head-quarters of the Board were to be in London, its expenses to be met by the different parts of the Empire in proportion to their trade and revenue.

[2] See this *Survey*, vol. i, ch. ii.

[3] Ibid., p. 28.

[4] See p. 97 above on the Balfour of Burleigh report. And see below, Chapter III, section iv, for the record of experience following the far less ambitious plan of Ottawa.

impossibility of its scheme But perhaps the situation of Canada was an exceptional one. It will be fairer to follow the commission's own argument, and to mark the place where it broke down. The whole argument hinged upon the classification of commodities into three categories—the category of monopoly-advantage or at least of surplus, the category of plain sufficiency, and the category of insufficiency. On the premisses of imperial self-sufficiency the second category presented the easiest problem, there existed a natural balance between the Empire's production and its needs; all that statesmanship had to do was to eliminate the foreigner who competed in the Empire market. Yet it would hardly be surprising if the foreigner thereupon eliminated himself as a purchaser of those products—including the manufactured articles of the United Kingdom—of which the Empire had surpluses The commission imagined that the chief problem was to increase the supply of commodities in the third category, whereas the chief problem was to provide or preserve an outlet for products in the first category—for Canadian wheat and Australian wool and British manufactures and coal. Moreover—whether by the forcing effect of marketing shelter, or by virtue of natural expansion in a wide empire not yet fully developed —it was not unlikely that certain commodities in the second category would outstrip the capacity of the imperial market and thus find themselves in the first category. This, in the kind of world envisaged by the Dominions Royal Commission, would not be an unmixed blessing. There was really no justification for assuming that an imperial surplus of any commodity was a reliable weapon of economic warfare. Other powers would presumably be pursuing the same measures of 'economic defence' as those which commended themselves to the British Empire. Their natural resources might be less bountiful, but there was no reason to suppose that they would not win considerable success in their struggle for economic independence. There was every likelihood that they would be equally persistent and ingenious in their efforts to supplant foreign imports by intensified domestic production of the same articles, or by the discovery of substitutes. In these circumstances the weapon with which the Empire-monopolist faced his enemies might reveal itself to be a boomerang It would need only a slackening of demand and a fall of prices—for wool, or wheat, or rubber, or palm products, or cotton goods, or coal—to remind the peoples of the Empire how much of their prosperity, how much even of their power, had grown from their free economic collaboration with the world-wide society of nations. An imperial self-sufficiency which closed the British market

to Danes and Argentinians might be applauded by Australian producers of butter and beef; but an imperial self-sufficiency which left Yorkshiremen to compete unchallenged at the wool sales would undermine the foundations of Australia's strength. The argument for imperial self-sufficiency would sound less attractive when closer inspection revealed it leading to the conclusion that the imperial market was, or could be made, sufficient—a conclusion fantastically at variance with the economic history and existing economic structure of Canada, Australia, and Great Britain itself

How came it that the realism of the Dominions Royal Commission led towards such fantasy? The answer is that its realism was one-sidedly political It composed its picture of human society to fit the lines of a single dominant pattern—the pattern of international political conflict. It assumed with Hobbes that the political units into which human society is divided face each other perpetually in the posture of war. Possibly it was right. It assumed also that the economic activity of modern society could be frozen into the same posture. It assumed the infinite malleability of the men and women who were earning their livings in the Dominions, and it assumed identity of scale between the economic environment in which they were working and the political environment of the Empire. These assumptions conflicted with the facts of history and geography. There are economic frontiers no less than political ones. Even the masters of *raison d'état*, even the present-day dictators of totalitarian states who command unprecedented resources of science and technology and the enthusiastic obedience of vast masses of men, have something to learn from a reading of Adam Smith.

Mercantilist economics, Schmoller said, meant state-building. The Dominions Royal Commission planned consciously or unconsciously the building of an imperial state. Even though the plan came to grief, it demanded serious examination It was a serious enterprise of thought. There were however other enterprises whose content of thought and purpose was frivolous and vulgar. In a nation where rising business men have traditionally dignified their new wealth by acquiring the status of a land-owning gentry, the conception of developing an 'imperial estate' was easier to grasp than the conception of building an imperial State. Was not Great Britain a business nation with vast landed possessions in Africa and elsewhere? The self-governing Dominions were no longer possessions; they could refuse to conform to a unitary plan of imperial wealth and power; but the dependencies could be made to conform. A propagandist body called the Empire Resources Development Committee attempted to bring home

to the British government and people a realization of their vast opportunity. Among the members of the committee were peers, a poet, industrial and financial magnates, members of parliament, and five ministers of the Crown.[1] These gentlemen limited their proposals to the Crown Colonies, the Protectorates, and India, because these places were in their opinion unlikely 'ever to receive any large measure of self-government, and there will be the less difficulty in regarding them mainly from the standpoint of estates of the Crown'. They found out later that they had made a mistake with regard to India, and narrowed their scheme to the area of the Crown Colonies and Protectorates. Their great idea was that these territories should pay off the British war debt In order that this might be achieved, their resources must be developed by 'the State'—not by the local governments, not even by the imperial government, but by corporations of practical business men acting on behalf of the imperial government and paying into the British treasury 'an adequate share' of the profits 'Think what it would mean', exclaimed a parliamentary member of the committee, 'if all the products of West Africa, mineral and vegetable, were controlled for the benefit of the Empire as a whole! Think how huge is the potential profit which could be devoted to the service of the Empire's debt!' Moreover, think what it would mean to the natives of West Africa! It would be 'a splendid means of facilitating the civilization of the natives, as their labour would be harnessed to the chariot of progress and productiveness'.[2] 'The native population of our tropical possessions', argued another member of the committee,[3] 'may properly be included in any review of our undeveloped national assets' Why not? It would no doubt be necessary to proceed to 'the elimination of the slacker': when this was done, the natives would play their part in the great game of imperial progress Was it not just that they should do so? Were they not enjoying the benefits of British civilization? Should they not therefore 'bear their share of the Imperial burden?'. . . . It is pleasing to reflect upon the increasing loftiness of the moral sentiments of the Empire Resources Development Committee. It began to speak in the language of the sacred trust. 'You men in the British

[1] The programme of the committee was published on 29th January 1917 with thirty-three signatures

[2] Alfred Bigland, 'The Empire's Assets and how to use them', *Journal of the Royal Society of Arts*, 30th March 1917, vol lxv, p. 358 The author was an M P, and oil and fats controller during the War

[3] The secretary of the Empire Resources Development Committee and its most prolific pamphleteer—Mr H Wilson Fox, M P Typical articles from his pen are in *The Times*, 28th and 29th September 1917, *The Nineteenth Century and After*, October 1917, and *United Empire*, January 1918.

House of Commons', cried one of its impassioned orators, 'are trustees of an estate of untold wealth.' And he added: 'We in the British Empire should make a fortune out of the food fish of the world.' There was a fortune in the sea; there was a greater fortune in West Africa; the poor people of England were awaiting the imperial enterprise which would gather in these fortunes. 'I want to use these resources', the orator continued, 'not only for the production of wealth, but as a weapon in the defence of our working classes that we have heard so much debated.' The metaphor of 'a weapon', having slipped into the speech, stuck there. It very nearly punctured the metaphor of 'the trust'. The orator begged his audience to think of the resources of the British Empire as a wonderful weapon for dealing with 'all the other countries where they have Parliamentary government'. 'We have more to bargain with', he concluded, 'in the raw materials of the Empire . . . than any of our civilized competitors.'[1]

There were members of the Empire Resources Development Committee who must have shuddered as they heard or read this farrago of cant and greed; but its vulgarity of phrase did no more than underline the vulgarity of idea always present in the committee's propaganda. It would be flattery to represent the propaganda as a revival of mercantilist thought. It represented popular economic superstition at its very worst, it was a kind of witch-doctoring, or ju-ju economics. The mercantilist thinkers possessed some idea of a social 'mechanism' which could be manipulated in the interests of the State, and they handed this idea on to the natural law philosophers, such as Adam Smith, who made it the basis of a science—although the basis was not always philosophically conceived by the economists themselves. But much ordinary thinking about economic phenomena is still in a stage anterior to Smith and to the mercantilist writers also. It has no idea of the limiting conditions imposed upon action by physical environment and by those habitual regularities of conduct which arise from 'the natural disposition of mankind' and from historically formed circumstance. It regards law as an incantation and feels sure

[1] See *House of Commons Debates*, 5th series, vol. cxii, cols. 408–33, for the full debate (13th February 1919). The speech quoted is in cols. 419 ff. The note of proletarian sympathy in it is echoed by another speaker, who said that empire development had 'great possibilities for labour'—including high wages, secure employment, and a six-hour working day. But Mr. L. S. Amery, in replying for the government, uttered 'a word of warning'. He promised indeed that the government would give careful consideration to the committee's proposals and would establish a select committee for this purpose, but he declared that there ought to be no confusion between '*our interests as representing the taxpayers of this country and our* interests as trustees for millions of people on a lower plane of political development'.

that physical force can solve all awkward problems. Like the hey-presto performances which delight pleasure-seekers at sea-side resorts, it appeals to a people which is permitting itself to enjoy an intellectual holiday. But the intellectual holiday of the War was a grim and joyless affair, and performances like those of the Empire Development Board appealed to the spite and greed of the masses, not to their good nature.

Yet the critical historian ought not to lay a one-sided emphasis upon '*the crimes and follies of mankind*'. He may hope by exposing them to make their recurrence less likely, but he will fail to do so unless he recalls the circumstances which give rise to them, the maladies of which they are symptoms, and the healthy forces which resist them. The danger of defeat through the interruption of supply was a real danger of the Great War, escape was by a narrow margin, it was natural that supply should become to many people an obsession. Similarly, the comradeship of the Dominions and the loyalty of the Dependencies were real, it was natural and right that the revelation of this reality should produce a lively enthusiasm for the Empire But the enthusiasm was too often uninstructed. This opened the way for ignorant men to advertise their private inspirations and for greedy men to pursue their private interests The masses of people who swallowed the lamentable propaganda of the Empire Resources Development Committee (and no doubt some of the propagandists themselves) were guilty rather of sincere silliness than of deformed greed And those forces in the nation which resisted the propaganda were moved to do so, not merely because of their moral qualities, but because they commanded reliable information. The resistance was led by two resolute organizations which had first-hand knowledge of West African conditions. One of these organizations was the Association of West African Merchants, whose head-quarters were at Liverpool These merchants maintained that a return to the 'plantation policy' would not merely threaten the political foundations of British rule, which rested upon the goodwill of the African population and in the last resort upon standards of humanity and justice; it would also threaten the real interests of British trade, which rested upon the same goodwill and upon the established system of African peasant production.[1] The merchants

[1] See *The Economist*, 22nd December 1917 a lengthy memorandum sets out the views of the *Association of West African Merchants. In recording them I do not* intend to prejudge the economic and social issues involved in the discussion of the relative merits of peasant and plantation economies (see Part II of this Volume) The Empire Resources Development Committee had, of course, raised much wider and deeper issues.

were supported by the missionaries, and by the Aborigines' Protection Society. This alliance had deep roots in history. Three generations earlier, the missionaries had summoned 'legitimate trade' to undertake in West Africa the task of driving out the slave-trade They had also summoned government. Now, as then, the alliance of the missionary and the decent trader needed for its completion a third party—the humane administrator. At the end of the Great War a great West African administrator was already at work restating the objects of this historic alliance in his theory of the dual mandate. While the British government was very gently, and not without some dubious compromise, bringing the propagandists of colonial exploitation to their senses,[1] Lord Lugard was publicly and mercilessly assailing them.[2]

But by this time the Great War was over. It had violently quickened the pace of change, both political and economic change, within the British Empire. It had forced into the open the conflicts of interest and of idea which would accompany that change and drive it forward. But it had given a distorted impression of the conflicting elements, and of the direction of change. In many respects it was destined to follow a direction which few people had envisaged during the years of struggle. The War had presented to the Empire in sharpened definition problems which it would still have to face in the future, but it would have to face also the many other problems presented to it out of the long history which has been sketched in this chapter

[1] See p 108, note 1, above, and Chapter II, section i, below

[2] See his article in *The Nineteenth Century and After*, vol lxxxviii, pp 239–55 Its ruthless exposure of ethical and economic fallacies may be commended to those who may think that the present writer has been too unkind It corresponded fairly closely in time with Mr J M Keynes's criticism of the wild economic fallacies which had expressed themselves in the reparations settlement Both signified a reassertion of reason against incantation.

CHAPTER II

THE END OF THE WAR

I

GREAT BRITAIN AND HER DEPENDENCIES

IN the closing months of the War two separate torrents of emotion were driving the peoples and their statesmen There was the torrent of war fury, and the torrent of peace fervour. The former carried on its surface the ideas of 'economic defence',—of national or imperial self-sufficiency; the latter carried on its surface the theory of an international economic order. This theory was emphatically restated in the peace speeches of President Wilson In the third of his fourteen points, the President demanded 'the removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance' In his fifth point, he demanded 'a free, open-minded, and absolutely impartial adjustment of all colonial claims', based upon respect for the interests of colonial populations The Allied nations found themselves committed to the promise that there should be 'no annexations, no contributions, no punitive damages'. This might have been awkward for them. They yearned for peace and justice; but they wanted the fruits of victory.[1]

Conscience came to their aid. They were pledged to President Wilson's principles, but they interpreted them in the light of their conviction that they were guiltless of the war and that the Germans were guilty. They told a protesting Germany that she had committed 'the greatest crime against humanity and the freedom of peoples that any nation, calling itself civilized, has ever committed'. They agreed that there must be justice, but 'justice for all' . . . reparation for those who had suffered at Germany's hands, and punishment of the criminals who had most flagrantly sinned against humanity[2] Their theory of atonement expressed itself in the reparations and

[1] See *A History of the Peace Conference of Paris*, ed H W. V Temperley (Oxford University Press, 1920), vol i, pp. 431 ff, for President Wilson's pronouncements On the question of colonies, Mr Lloyd George went even farther (ibid, vol ii, p 227) in his speech of 5th January 1918. 'The general principle of national self-determination is as applicable in their cases as in those of occupied European territories'

[2] Op cit, vol. ii, p ii The Allied Reply, dated 16th June 1919, to the German counter-proposals of 29th May

punitive chapters of the peace treaty.[1] They based the colonial settlement which the treaty imposed upon a distinct, but very similar theory. Like the Germans, they appealed to President Wilson's fifth point. But they refuted the German reading of Germany's colonial record. 'Germany's dereliction in the sphere of colonial civilization', they said, 'has been revealed too completely to admit of the Allied and Associated Powers consenting to make a second experiment and of their assuming the responsibility of again abandoning thirteen or fourteen millions of natives to a fate from which the war has delivered them.'[2]

Germany, therefore, lost her colonies. But the Allies were pledged not to annex them. They escaped from their difficulty by instituting the mandates system. General Smuts, who had done much to popularize this plan, did not originally intend that it should apply to the ex-German colonies in Africa. The Australians and New Zealanders vehemently contested its application to the ex-German colonies in the Pacific German South West Africa and the Pacific territories, therefore, were put in a class by themselves as *C* Mandates Under German rule these territories had been in the open-door colonial area; they were now withdrawn behind doors which were closed at the will of South Africa, Australia, New Zealand, and Great Britain herself[3]

This was hardly an auspicious beginning for the new system which had been designed to safeguard the interests of colonial populations and to guarantee, in the colonial sphere, 'an equality of trade conditions among all nations consenting to the peace' Yet it would be false to regard the whole mandates system as veiled annexation and monopoly It did represent an important advance upon former attempts to secure by international convention a just colonial order It provided, what hitherto had been lacking, a regular means of testing the performance of colonial administration by the standard of obligations which morally and legally were binding upon them.[4]

[1] Chapters VII and VIII Article 227, providing for the trial of William Hohenzollern, throws a particularly vivid light upon the theory of justice referred to above

[2] Op cit, vol ii, p 301 From the document of 16th June 1919

[3] Great Britain was directly implicated in the disposition of the Pacific Island of Nauru, with its rich phosphates The Mandate was conferred on 'the British Empire' on 7th May 1919 On 2nd July three governments of that Empire, the United Kingdom, Australia, and New Zealand, took it upon themselves to conclude an agreement making themselves jointly responsible for the administration of Nauru and securing to themselves a joint monopoly of its phosphates This agreement called forth severe labour and liberal criticism in the House of Commons on 16th June 1920

[4] The Permanent Mandates Commission tests the mandatory power under the heading of 'equality of opportunity for the trade and commerce of other members of the League' by searching questions under five heads . . . concessions, land tenure,

The ex-German colonies of Africa, with the exception of South West Africa, became *B* Mandates, still pledged to the principle of the open door. The Covenant of the League contained no such pledge binding upon the *A* Mandates which had been carved out of the Turkish Empire. But the pledge was instituted in the individual instruments which, in 1920, allocated these territories to the administration of Great Britain and France.

It thus became evident that the struggle between opposing ideals and policies was not suddenly concluded by clear-cut decisions based on principle. In the colonial settlement at Versailles, the Wilsonian principle was always professed, sometimes evaded, and sometimes applied. There is a similar story to tell of the colonial policy of Great Britain during the first years of peace. The word 'trusteeship' came into fashion, but policy was hammered out in a struggle between men who stood for a system which was consistent with this word, and men who, standing for a different system, appealed to the ideal of trusteeship in vague and lofty perorations.

The gentlemen of the Empire Resources Development Committee still kept bringing economic rabbits out of their imperial top hats. But the British audience was ceasing to applaud their performances. They found themselves, therefore, compelled to discontinue their more ambitious tricks. The trick of the vanishing war-debt and the six-hour day and two months' holidays for every British working-man—achieved scientifically and without deception by exploiting the resources of the British colonies—no longer figured on their programme. But there was quite a modest item with palm-kernels to which they were particularly attached To their joy, the British government itself undertook direct responsibility for this performance

The history of the palm-kernels project may be traced back to June 1915, when the government appointed a committee 'to consider the present condition and the prospects of the West Africa trade in palm kernels and other edible and oil-producing nuts and seeds, and to make recommendations for the production in the United Kingdom of the industries dependent thereon.[1] The West African sections of

mining rights, the fiscal régime, and customs regulations Mandatory governments are, however, considered to be in general unfettered with regard to essential public works and services, the disposition of monopolies of a purely fiscal character, and administrative direction of enterprises for the development of natural resources

[1] Cd 8247 of 1916 Mr (later Sir Arthur) Steel-Maitland was chairman of the committee other members were Professor Dunstan, Director of the Imperial Institute, Mr T. Worthington of the Board of Trade, and two West African governors, Sir Frederick Lugard and Sir Hugh Clifford The latter had to return to Africa before the report was signed. Mr. T. Wiles, M.P., signed a minority report expressing radical dissent.

the chambers of commerce in London, Liverpool, and Manchester had asked for the investigation. These bodies were justifiably perturbed by an interruption of trade. The West African palm tree produces a versatile fruit, its pericarp yields oil which is extracted by the native population; its kernel yields oil which is extracted by crushing in the mills of industrial countries. Palm-kernel oil is used chiefly in the manufacture of margarine, soap, and compound lard; it has in addition a variety of other employments, for example, as a flux in the tin-plate industry The husk of the kernel, after crushing, can be employed in the manufacture of feeding-stuff for animals. German farmers, before the War, had learnt to appreciate the value of this feeding stuff. For this and for other reasons the trade in palm kernels had established its chief market in Hamburg Germany became the centre of the crushing industry; Holland attracted to itself the manufacture of margarine. This international dispersal of the industry was interrupted by the War. British traders and shippers had to find a new market to take the place of Hamburg. The committee of inquiry reported that the market could be established in Great Britain, provided the crushing industry was also established there.

The argument seemed a reasonable one [1] But the committee projected the necessities of war into the design of the future peace 'The question at issue', it declared, 'is between Germany and the United Kingdom ' Before the War, the Germans had enjoyed hospitality in the British colonies and had abused it. They would do the same again if they were given the chance. They must not be given the chance.[2] This was precisely the logic which inspired the resolutions of the Allied Economic Conference at Paris in June 1916 [3] Lord Balfour of Burleigh's committee on 'commercial and industrial policy after the war' approved it, and suggested that the West African example might be followed in other parts of the Empire also—for example in India [4] The suggestion did not go unheeded. In 1918 a committee appointed by the Board of Trade proposed that 'the attention of the Indian government be called to the opportunity offered by India's monopoly in the production of jute to safeguard for the British Empire and its Allies the supplies of the fabric'. The com-

[1] It was, however, the view of the *Economist* (vol lxxxiv, p. 986) that the problem of commercial distribution and industrial production would solve itself if the real emergency of freight-shortage could be met successfully. Actually at the end of 1917 crushing mills in England were idle because they could not procure kernels (ibid., vol lxxxv, p 729)

[2] Cd. 8247, pp. 21–2

[3] Cd 8271, 'to conserve for the Allied Countries, before all others, their natural resources . . '.

[4] Cd. 9034 of 1918, paras 4, 21.

mittee's idea was that Empire countries should secure jute on the best terms, allied countries on terms perhaps not quite so good, neutral countries on whatever terms they could get by bargaining, and enemy countries on no terms at all.[1] The same idea expressed itself in suggestions for the handling of Nigerian tin and Indian hides. The last two suggestions were put into practice contemporaneously with the palm-kernel policy All the suggestions were put forward, not merely to meet a war emergency, but to initiate a new commercial system for times of peace. These facts make it clear that the palm-kernel policy cannot be treated as an isolated episode; the 'question at issue' was not merely a struggle 'between England and Germany', it was also a struggle between the idea of monopoly and the idea of mandate.

The committee on palm kernels had suggested a practical mechanism for putting into effect the purpose which it approved. It suggested that an export duty of £2 per ton be imposed and continued for five years after the War, with a rebate in favour of the United Kingdom 'If a duty of £2 per ton be found insufficient to divert the trade to this country,' it added, 'the amount should be raised until the duty is adequate to effect its purpose, and this determination should be made clear from the outset '[2] The committee's proposals were at once debated in the House of Commons [3] Liberal and Labour spokesmen attacked them as a departure from the traditions of British colonial policy They maintained that a restriction of the market would depress the price to the detriment of the West African natives, and that it would be also an abuse of power to the detriment of world commerce, including the commerce of Great Britain's allies Champions of the policy complimented these speakers on their 'very fine exposition of the doctrines of the obsolete Manchester school'. 'Those regions,' said Mr Mackinder, 'ought to be treated as assets of the Empire. If we keep the *pax Britannica* throughout vast areas of the world . . ., then we are entitled to treat those regions as imperial estates.'[4] The government spokesman, Mr. Bonar Law, did not take such a defiant stand. He promised that the export duty would not be imposed against France during the course of the War,

[1] Cd. 9070 of 1918 *Recommendation of Departmental Committee appointed by the Board of Trade to consider the Textile Trades after the War*, p 125 'To this end we recommend the imposition of an export duty (£5 per ton has been suggested by expert witnesses) on shipments of raw jute from India to all destinations with a total rebate in favour of the British Empire, total or graduated rebates in favour of the Allies, and graduated rebates in favour of such neutral countries as may offer reciprocal concessions ' [2] Cd 8247, p 22

[3] *House of Commons Debates*, 3rd August 1916, 5th series, vol lxxxv, cols 551 ff.

[4] Ibid , col 573

though he made it clear that Holland could hope for no exemption from it. He argued that the crushing industry could not be established in Great Britain unless capitalists were given a long-term guarantee of security. But he denied that any harm would be inflicted on the West African natives. To support his denial, he appealed to the authority of Sir Frederick Lugard.[1] He asserted that the government remained unshakably loyal to the best traditions of colonial trusteeship. It was not instituting any new principle. Had there not been in existence since 1903 a preferential export duty on tin ore produced in the Federated Malay States, to prevent the ore going to foreigners? Had not the previous government, a liberal government, been ready to impose a similar duty on Nigerian tin? Why had there been no protests from the champions of the open door against these measures?[2]

These were awkward questions to answer. The champions of the open door said that they had not been aware of the Malay precedent, or had not realized its significance; and as for the duty on Nigerian tin, they had been biding their time until it should actually be imposed. Their self-justification was not completely effective. Yet they were right in judging that the palm-kernels scheme was, in its origin and tendency, connected, as the Malay incident had never been, with a deliberate attack upon the liberal colonial policy of Great Britain. Throughout the remaining years of the War they protested against it persistently, and succeeded in eliciting from the government assurances that it was in no way associated with the vast projects of the Empire Resources Development Committee.[3] Meanwhile, the machinery of the Colonial Office worked very slowly. The preferential export duty did not come actually into force until October 1919.[4] By then, circumstances were no longer so favourable

[1] Lord Lugard gives some account of this affair, and his attitude with regard to it, in *The Dual Mandate in British Tropical Africa* (London, 1922), pp. 268 ff. He was with reservations prepared to accept the measure during the war emergency, but he welcomed its ultimate withdrawal as 'the vindication of the principle that a trustee Power is not justified in arbitrarily restricting the markets of its ward.'

[2] *House of Commons Debates*, 5th series, vol. lxxxv, col. 586.

[3] Ibid., vol. xc, col. 436, vol. xciii, cols. 373, 461, 472, 871, vol. xcviii, col. 280, vol. cvi, col. 1558, vol. cxii, col. 1956, vol. cxvi, col. 544.

[4] *Board of Trade Journal*, 11th August 1919, announces its forthcoming application. The actual date was 20th October (*House of Commons Debates*, 5th series, vol. cxx, col. 667). Ibid., 16th October 1919 for announcement of Government of India's decision to impose a 15 per cent. duty on raw hides with a two-thirds rebate in favour of the British Empire. But the Indian government refused the invitation to impose, contemporaneously with the palm-kernels duty, a similar duty on ground-nuts (*House of Lords Debates*, 5th series, vol. xxxviii, col. 223).

to the tendencies of which the tax had become a symbol. The war emergency existed no longer. The reaction against the 'economics of siege' was rapidly growing. Before long the business community would be tormented, not by the difficulty of securing supplies, but by the difficulty of effecting sales. Trusteeship, rather than monopoly, would become the watchword of practical men.

The manner in which the preferential export duty was imposed made it particularly vulnerable to attack on the principle of colonial trusteeship. In the first place, there was opposition in West Africa itself. The unofficial members in the legislative council of the Gold Coast shut their ears to the persuasions of their Governor and refused to make the requested gesture of imperial patriotism. The British government instructed the Governor to force the measure through against this opposition But this was not all The British government was not content with preference It demanded larger advantages and guarantees for British industry At its behest, a system of export prohibition was established for palm-kernels, ground-nuts, and copra. Eight-ninths of the palm kernels, and four-fifths of the other two commodities, must be reserved for shipment to the United Kingdom and nowhere else.[1] This, Mr. Amery ingenuously argued, was not a policy of monopoly, 'since certain proportions of the commodities specified are to be permitted to go to any destination'.[2]

But the government had gone too far. Very soon it scrapped the export quota system and contented itself with the preferential duty. But this did not save it from embarrassing attack. It did not greatly fear the House of Commons, where only forty members attended to support the frontal attack opened by a Labour speaker on October 21st.[3] But it was severely handled on December 17th in the House of Lords. Lord Beauchamp asserted that Great Britain was now deserting what had hitherto been the cardinal principle of her colonial policy, namely that the inhabitants of her dependent territories were the owners of the produce of their soil; it was this principle which had been the basis of the British protest against the Congo scandal. The Archbishop of Canterbury declared that the government's policy left him 'with an immense whiff of something like the very thing that we were . . . denouncing in the Congo'. Lord Emmett, a director of the Niger Company, reminded the House that

[1] *House of Commons Debates*, 5th series, vol cxx, col. 658.

[2] Ibid, col 674

[3] *The Economist*, 1st November 1919 (vol lxxxix, p. 689). The palm-kernels policy, said *The Economist*, was a 'pretty commentary' on the attitude of the Colonial Office to the mandate principle, and the attendance in the House was a 'pretty commentary' on parliament's attitude.

other empires had fallen through exploitation; the British Empire, he said, could only survive on the principle of trusteeship. Lord Crewe agreed that the Empire could not survive if it slipped into a policy which would, for the first time, awaken world-wide jealousy and resentment. Lord Bryce inquired whether the Government intended to flout a principle which it had just affirmed in the mandates system, and which it boasted to be Great Britain's own standard, and her example to the world.[1]

To this attack the government spokesman made a stammering reply. But the arguments of principle and of the higher political wisdom were not in themselves sufficient to effect a change in government policy. In July 1921 the government found itself compelled to grapple with arguments of a different kind. The Under-Secretary for the Colonies, Mr. Wood, had to answer the following question from Colonel Wedgwood: 'Does the Honourable Gentleman appreciate the fact that we may lose the market owing to this action of his predecessors?' 'That point', Mr. Wood replied, 'has not been lost sight of.'[2] He admitted that the prosperity of the West African colonies and the British merchants interested in their trade was threatened by the fall in prices and the competition of other tropical countries and of other oil-producing products. He promised that the government would take effective action so soon as it received the report of a commission which was investigating West African taxation and trade. But British traders were impatient and alarmed. Early in 1922 Lever Bros. complained that British West African trade with the Continent was in an impossible position, because the French were selling palm-kernel products at £5 a ton and the British could only offer them at £9 a ton.[3] The Colonial Secretary, Mr. Churchill, promised that he would consider withdrawing the preferential duty, in the interests of the export trade. On 4th July 1922 Mr. Wood announced to the House of Commons that the government had decided to withdraw the duty. The faithful champions of the mandate principle who had fought the duty throughout six years would have been hardly human if they had not cheered their own victory. Colonel Wedgwood invited the House to give in the future a little more attention to 'the situation of all these semi-savage peoples who suddenly discovered that they are merely cogs in a gigantic trading machine which has suddenly collapsed and left them, their raw materials, their produce and their living . . .

[1] *House of Lords Debates*, 5th series, vol. xxxviii, pp. 221–52.
[2] *House of Commons Debates*, 5th series, vol. cxliv, col. 196.
[3] Ibid., vol. cl, col. 2012 (question, 4th April 1922, by Mr. Ormsby Gore).

stranded and helpless.' Lord Cavendish-Bentinck bade an exultant farewell to 'a piece of bastard imperialism, compounded of national exclusiveness and commercial greed of the very worst kind, inspired by what Arthur Young called "the spirit of the counter"'.[1]

In the end, it was economic cause and effect rather than moral argument which defeated this West African experiment in a new imperial policy.[2] The economic lesson is such an instructive one that it is worth while to take note of its details. The position may be explained by referring to the classification of commodities adopted by the Dominions Royal Commission.[3] Palm-kernels are a 'Class I' commodity—that is to say, the British Empire is on balance an exporter of them. Since the imperial market (which means in practice the United Kingdom market) cannot absorb the whole of imperial production, imperial policy should in its own interests aim at encouraging a general demand for palm products, and at maintaining the comparative strength of British colonial production in the widest possible market. For the colonies of Sierra Leone and Nigeria this is a major interest. Throughout the whole of their history and up to the present day palm-oil and palm-kernels have represented a very high proportion of their exports. In 1935 they were still two-fifths of Nigeria's total exports and one-third of Sierra Leone's.[4]

In 1916, when the committee on the West African trade in palm-kernels reported, and in 1919, when the Colonial Office put into effect its recommendations, inexpert economic opinion (to which in this matter the Colonial Office conformed) was dominated by 'hunger

[1] Op. cit., vol. clvi, cols. 245, 272.

[2] *House of Commons Debates*, 5th series, vol. cl, cols. 227 ff. Mr. Wood (now more widely known as Lord Halifax) shows that the palm industry does not satisfy the conditions which are necessary for a successful monopoly. Yet he is able to allude, with reason, to another aspect of the Nigerian crisis which arose from the fact that the British colonial government had actually sacrificed economic considerations to moral ones. By prohibiting the import of spirits, Nigeria had lost revenue to the extent of £900,000, and this loss was in large measure responsible for her unhappy budgetary situation. It is odd, but true, that Great Britain should have sacrificed principle precisely in a case where principle coincided with her economic interest, and maintained it when it was contrary to her interest.

[3] See above, pp. 100-3.

[4] All the essential facts and figures are set out in the periodical publication of the Imperial Economic Committee, *Vegetable Oils and Oilseeds* (Imperial Economic Committee, Commodity Series). I should like to take this opportunity of thanking the Committee for the gift of many useful publications. The figures here used are taken from the 1937 number. It may be pointed out in passing (ibid., pp. 78-9) that the Empire export surplus of palm-kernels has been rising since 1929 and the Empire export surplus of palm-oil has in the same period been falling. How difficult, then, must be the search for imperial self-sufficiency when the same fruit produces two products which move in two contrasted directions.

for goods'. The British assumed that they could secure for themselves on privileged terms all the palm-kernels they wanted, and easily unload the residue upon the foreigner. The very reverse of this was true. The demand for palm-kernels is determined chiefly by their use in the production of soap, margarine, and (to a lesser degree) compound lard. The manufacturers of these commodities are by no means dependent upon the supply of palm-kernels, they can use other fatty oils of vegetable origin. There are at least thirty of these oils of which commercial use has been made; the most formidable potential competitors of palm-kernels are copra, cottonseed, ground-nuts, soya beans, rapeseed, linseed, sesame seed, and the olive. No vegetable fatty oil is equally suitable for all purposes, but technical processes such as hydrogenation have made all of them to a very great extent interchangeable in response to price fluctuations. All fatty oils of vegetable origin, moreover, have to face competition with marine and animal products. Whale-oil has of recent years been a competitor of growing importance.[1] More persistent has been the competition of butter with margarine, of lard with compound lard, and of tallow with the vegetable oils employed in the soap-making industry. This competition makes itself felt sharply whenever the gap is narrowed between the prices of the vegetable and the animal products. But this is not all. There is a further kind of competition which alone should have given pause to the men who tried in 1919 to snatch a national advantage. This is regional competition in the production of palm-kernels themselves The planners of 1916 and 1919 gave little attention to the possibility of expanding production in the French West African colonies. They gave no attention to the possibility of development outside Africa[2] Yet the Dutch had made a quiet beginning with palm cultivation in Sumatra as early as 1911. So soon as it became clear to them that the British government intended to aim a blow at their margarine industry, they hurried on expansion in the East Indies.[3] A British Colonial

[1] Op cit, Appendix II, surveying whale-oil production, trade, and prices, 1929–36.

[2] *House of Commons Debates*, 5th series, vol lxxxv, col 567. Captain Owen Phillips on 3rd August 1916 remarks with satisfaction that the palm-tree producing these commercial products grows nowhere except in West Africa.

[3] Planters in British Malaya also went into the business, for its present extent and its prospects of rapid growth see *Vegetable Oils and Oilseeds*, 1937, pp. 69, 70, 78. Both British Malaya and the Netherlands East Indies have concentrated on trees giving a high yield of palm-oil rather than palm-kernels. In 1936 exports of palm-oil from the Netherlands East Indies for the first time exceeded the Nigerian figure—which was itself a peak one In palm-kernels Nigerian primacy was still far from being challenged, though exports from the Netherlands East Indies increased fivefold between 1929 and 1936.

Office committee which reported in 1925 expressed an almost excessive alarm at this threat to the prosperity of West Africa. The Dutch had gone into the business on a plantation basis, and the committee feared that what had already happened in the rubber industry might happen again in the palm products industry. Within thirty years plantation production of rubber outside Africa had extinguished the more primitive forest industry inside Africa. Was this history now repeating itself? If so, the British West African colonies might look forward not merely to an economic reverse but to a social disaster. The committee of 1925 discussed the most appropriate methods for warding off the disaster Modern machinery must be sent out to the colonies, efficient mills must be established there, and the mills must be secured a regular supply of palm-fruit. But this, the committee reflected, could not be achieved without education. It could not be achieved without 'changing the African'. . . . The Colonial Office was at last coming to grips with the realities of the West African economic problem. The hey-presto economics of a few years back now seemed very remote [1]

But the British government and British business men had not as yet really learnt their lesson. A government spokesman summed up the West African experience in an admirable statement of the conditions which are essential for the success of a monopoly; but the government forgot these conditions when a new emergency faced it. According to the Under Secretary for the Colonies, the preferential export duty on palm-kernels had broken down for two reasons: first, because there were alternative sources of supply, and secondly, because substitute products were available for industry.[2] What was true for palm-kernels would surely be true for rubber. But the circumstances seemed different, the problem which had to be faced after the War was the low price of rubber. And the proposed remedy was different; it was a restriction of supply. Yet the same effects of intensified competition with British Colonial production followed the restriction scheme and defeated its purposes. The story is well known, but is worth recapitulating in brief. The needs of the War had enormously stimulated the demand for rubber with consequent increase in production capacity. The diminished requirements of the ensuing peace years, together with the 1921 slump, caused a crisis in

[1] *West Africa Palm Oil and Palm Kernels Report of a Committee appointed by the Secretary of State for the Colonies, September 1923, to consider the best means of securing improved and increased production* (Colonial No 10, 1925)

[2] *House of Commons Debates*, 5th series, vol clvi, col 227 A more searching investigation into the West African problem, in which the story told above is only an episode, will be undertaken in Part II of this volume

British plantations. On the demand of the rubber producers the Colonial Office set up a committee under Sir James Stevenson to find a remedy. The committee recommended a scheme of restriction designed to raise prices from about 10*d*. per pound to about 1*s*. 6*d*. per pound. The scheme quickly produced results which aroused jubilation amongst British producers. By 1925 the price of rubber had risen to 4*s*. per pound There was a good deal of talk among foolish people of making the Americans pay through their rubber purchases for the interest on war debt with which Great Britain was burdened. But certain typical incidents of commodity restriction schemes began quickly to show themselves The high price served to diminish demand and encourage the use of substitutes. It also stimulated supply in countries outside the British Empire. The price of rubber fell to 1*s*. 8*d*. in 1926, to 1*s*. 4*d*. in 1927, to 8½*d* in 1928 In November of that year the British government abandoned the scheme. At that time the British share of the world market, which in 1921 had been 75 per cent , had fallen to 52 per cent. And the price of rubber continued to fall. At the end of 1932 it was about 2½*d*. per pound. Producers of all nationalities at last learnt their lesson. Restriction, if it were to have any chance of success, must include at least all the chief producing countries. On this basis a new restriction scheme was announced in April 1934.

The short story which has just been told had its beginning in the years covered by the present chapter, but has been followed far beyond them It raises questions of policy which will have to be discussed later in this volume. But the narrative must now return to the evolution of policy in the years which directly followed the War. The removal of the preferential export duty on palm-kernels symbolized the defeat, at least for the time being, of the forces represented by the Empire Resources Development Committee. This does not mean that the idea of imperial development was defeated. The West African section of the Liverpool Chamber of Commerce, the Aborigines' Protection Society, and the best colonial administrators were no less anxious than was the Empire Resources Development Committee to hasten material progress in the colonies What they fought was the committee's conception of the end of progress, and the means which it proposed to use in order to gain this end. They rejected the conception of 'a vast imperial estate' whose inhabitants might be reckoned among Great Britain's 'undeveloped national assets'. They asserted that the Native populations had definite rights and interests which the imperial government must safeguard. They were eager for colonial development, so long as it conformed to

the principle of trusteeship. Properly directed, it was in their view an essential part of the 'trust'.[1]

In November 1921 the British government adopted a plan for developing cotton-growing in the Empire which conformed to these principles. As early as 1902 the cotton industry in the United Kingdom had formed a British Cotton Growing Association with the object of stimulating Empire supplies. During the War and in the early years of peace, shortage in the world market convinced the trade that this object was a matter of urgency. An Empire Cotton Growing Committee was set up, representing both the trade and the great government departments. This committee emphasized the necessity for research, expert guidance, and education. It was to perform these functions that the Empire Cotton Growing Corporation was established by Royal Charter in November 1921. The Corporation was to be financed partly by a government grant amounting approximately to £1,000,000, and partly by the proceeds of a levy of 6*d.* per standard bale imposed on all cotton purchased by spinners in Great Britain.[2] The Corporation decided at the beginning to pursue much of its research through existing institutions, and it worked in close touch with the Colonial Office, the colonial governments, and the Indian Central Cotton Committee. It was also ready to make the services of its experts available to self-governing communities such as Queensland, Western Australia, and the Union of South Africa. In cotton-producing areas of growing importance—notably the Anglo-Egyptian Sudan, Uganda, and, to a lesser degree, Nigeria—the investigations originated by the Corporation helped to guide policies of transport extension and water conservation. From its early beginnings up to the present, the reports and statements issued by the Corporation have shown an intelligent awareness, not only of the problems arising from geographical diversity, but of those arising from the diverse organizations and needs of the colonial populations to whom cotton signifies a rising standard of well-being.[3]

[1] See, e.g., *House of Commons Debates*, 5th series, vol. xcvii, cols. 1005, 1011. From this point of view Sir G. Toulmin and Lord Henry Cavendish-Bentinck call for a 'Colonial Economic General Staff'.

[2] Made compulsory by Act of Parliament in 1923. See *House of Commons Debates*, 5th series, vol. clvi, cols. 1067 ff., and *The Economist*, vol. xciv, p. 229.

[3] e.g. the Report of the Administrative Council of the Corporation of May 1935 stresses the importance of cotton-growing among native communities, (*a*) as providing a cash crop 'and thus relieving them of the necessity of seeking outside their own country work that will enable them to escape a poverty that in some parts amounts almost to destitution', (*b*) as favouring the extension of mixed farming, which is desirable for improving the utilization of the soil and raising the standard of life. It should be emphasized that cotton-growing in British colonies is, generally speaking, a native peasant industry. The chief exception is the irrigation-grown

From neither side of the mandate principle did the policy of development lay itself open to criticism. It is true that the British government was attempting to develop within the Empire a new element in world competition. This was quite in accordance with the rules. It could hardly be thought less legitimate than the competition against British cotton manufacture which was growing in newly industrialized countries. If it did not suit the interests of the southern states of America, it suited those of the Sudan, Uganda, and Nyasaland[1] Nor did the British government make any attempt to tie the production of those countries to the industry of Lancashire.[2]

If the settlement of the palm-kernels episode and the establishment of the Empire Cotton Growing Corporation were typical of the whole of British colonial policy in the years immediately following the War, the conclusion would seem to be that the British government, under pressure of political argument and economic fact, had cut loose from the dominant conceptions of the war years and had decided to advance by the way of scientific education and planned development rather than by the way of monopoly. But the conclusion is in fact far less clear-cut than this Only a beginning had as yet been made in thinking out the policy of colonial development. Large and complicated problems demanded thought and action; they will be examined later in this volume.[3] As for the policy of tariff preference,

cotton of the Anglo-Egyptian Sudan. There the government builds the railways, dams, major canals, and roads the Sudan Plantations Syndicate carries out necessary experimental work and is responsible for ploughing, seed distribution, minor canalization, ginning, marketing, the native tenants do the actual cultivation Of the profits the tenants receive 40 per cent, the government 35 per cent, and the Syndicate 25 per cent In Nyasaland, cotton-growing was begun on European plantations which did not attain a high degree of efficiency, this form of cultivation has decreased, while peasant cultivation has increased

[1] How small is the degree of Empire competition, excluding India, is shown by the following figures, taken from *Industrial Fibres* (Imperial Economic Committee, Commodity Series, 1937), p 9 Exports from the nine chief countries, in millions of bales, were provisionally estimated to be in 1936

United States .	2,826	Uganda .	129
India	1,630	Mexico	115
Egypt	772	Argentina	108
Brazil .	442	Anglo-Egyptian Sudan	106
Peru	177		

Nigeria and Tanganyika came much lower down the list of exporting countries with 25 million bales each, Kenya with 6, Nyasaland with 5, British West Indies with 2 With the exception of the irrigation-grown long staple cotton of the Sudan and the special West Indian variety, Empire cotton is competitive with American (For production figures see *Industrial Fibres*, pp 15, 16)

[2] Most of Sudan cotton goes through Port Sudan to England, most of Uganda cotton goes through Mombasa to India Perhaps 30 per cent. is re-exported thence to England, no precise figures of re-export are available.

[3] In Part II

the British government still clung to it. It did not even renounce the method of preferential export tariffs Although it was forced to cancel the preferential duty on the export of West African palm-kernels, it retained the corresponding duty on the export of Nigerian tin. Preferential import duties, however, were more easy to defend. They were in conflict with the principle of the open door, but it was easy to associate them by vague implication with the Dominion initiative for imperial preference, and thereby to justify them by the principle of colonial self-government. On 7th June 1920 the government announced that 'an invitation to consider the practicability of preferential rates for goods of imperial origin has been addressed to all colonies and protectorates, except those which are precluded by existing international agreements from doing so, and a few others in which preference is already in force'[1] Within two years from this date preferences to goods of Empire origin had been granted by no less than twenty-six of the governments which were dependent upon the Colonial Office.[2] The British government regarded this preferential system as the 'deliberate act of the colonies themselves and a proof of their desire for mutual trade and Empire partnership'[3] Yet in June 1920 it had refused to give a direct answer to the question 'whether any colony or protectorate will be compelled to introduce preferential duties in its tariffs against the wishes of the non-official representatives of their respective Legislatures. . . .'[4] The historian would be well advised to treat with some reserve and scepticism the suggestion that the preferential system of a colony or protectorate is essentially the sign of an expanding autonomy, or that it is rooted in a soil of interest and sentiment similar to that out of which Dominion preference has grown. Doubtless there is a connexion between the distinct histories of tariff preference in the self-governing and in the dependent sections of the Empire, but this connexion need not be looked for in the teleological theory of the Commonwealth

[1] *House of Commons Debates*, 5th series, vol cxxx, col 65

[2] *Colonial Tariff Policies*, publication of the United States Tariff Commission, 1922, p 370 It has been calculated that these preferences affected only about 5 or 6 per cent of the trade of the colonies and protectorates concerned.

[3] *Memorandum on the Open Door and Reciprocity*, prepared by Sir Alfred Zimmern for the Second International Studies Conference on the State and Economic Life

[4] *House of Commons Debates*, 5th series, vol cxxx, col 1262 The government spokesman replied that 'if any such case arises, the Secretary of State will consider the question with due regard to all the circumstances' (16th June 1920) In 1934 quotas on foreign textile goods were imposed in the Straits Settlements against the unanimous vote of the unofficial members (see *The Times*, 4th August 1934) In Ceylon a quota system was imposed by Order in Council against the will of the State Council See *J P E*, October 1934, p 985, and ibid, 1936, p 909 Also *Manchester Guardian*, 7th February 1933, 23rd March 1933, 18th August 1933.

of Nations.[1] The immediate and obvious connexion is a chronological one. The closing of colonial doors is associated in time with the movement for national protection and imperial preference in the self-governing members of the Commonwealth. Willingly or unwillingly, the dependent territories were brought into the same system by decision of a superior authority This was true during the early years of the peace, it was true during the period of more fundamental change which opened ten years later. But the change was prepared during the Great War. At the Imperial War Conference of 1917 the British government accepted for the first time the fiscal principles which the self-governing members of the Empire had been urging upon it from the time when imperial conferences first began in the year 1887.

II

Great Britain and the Dominions

This section will trace the steps which led to the enunciation of an economic programme for 'the autonomous nations of the Commonwealth'. The programme linked together in a single logical system the policies of migration, investment, and tariff preference But this harmony in logic never became a harmony in fact. The reason was that the statesmen who made the programme were unaware of the facts which were governing the movements of population, capital, and goods The next chapter will continue the story, and show how illusions which were long persisted in at last gave place to a critical awareness of the facts

On the morning of the 26th April 1917 the Imperial War Cabinet, after careful discussion, drafted an important resolution which the Imperial War Conference, on the afternoon of the same day, adopted by a unanimous vote. The resolution was as follows:

'Imperial Preference'

'The time has arrived when all possible encouragement should be given to the development of Imperial resources and especially to making the Empire independent of other countries in respect of food supplies, raw materials, and essential industries. With these objects in view this Conference expresses itself in favour of:

(1) The principle that each part of the Empire, having due regard to the interests of our Allies, shall give specially favourable treat-

[1] See *The State and Economic Life* (Sixth International Studies Conference, League of Nations Institute of Intellectual Co-operation, 1933), pp 86–90.

ment and facilities to the produce and manufactures of other parts of the Empire.

(2) Arrangements by which intending emigrants from the United Kingdom may be induced to settle in countries under the British flag.'[1]

This resolution, it will be observed, expressed the war-time aspiration for imperial self-sufficiency, and linked together the three ideas of development, preference, and migration. But the linking was as yet one of emotional juxtaposition rather than one of theoretical integration. This logical concentration of the programme came later, after a period in which each particular aspect of the programme had received in turn particular emphasis In 1917 the aspect of tariff preference was emphasized most heavily, in the printed report of the Conference it gave the heading to the whole resolution. But in the Imperial War Conference of 1918 imperial preference was not even discussed. This was in part due to the fact that the Dominion governments were content to exercise patience and await what they now believed to be the inevitable change in Great Britain's fiscal policy [2] But it was also due to the fact that imperial migration had for the time being ousted imperial preference as the chief object of interest

It has been shown in the first section of the preceding chapter that Great Britain's frontiers of settlement extended far beyond the boundaries of her political empire. During the nineteenth century the United Kingdom had sent to the United States more than double the number of settlers who had left its shores to settle in countries under the British flag Two committees which reported in 1917 expressed an urgent desire to close this chapter of history, and for the future to employ Great Britain's emigrant surplus in building the economic and political strength of the British Empire Empire settlement, the Dominions Royal Commission reported, 'lies at the root of Empire Development'.[3] A committee appointed to report on settling British ex-service men in Empire countries after the War expressed the same belief in words of eloquent enthusiasm.

'Since the outbreak of war, from every part of the Empire the children or grand-children of those whose enterprise or needs caused them to leave the United Kingdom in past years have rallied to the support of the Empire in this day of decision and struggle for existence. They have

[1] Cd 8566 of 1917, Resolution XXI

[2] *Economist*, vol lxxxv, p 462, quoting an emphatic disclaimer by Sir Robert Borden of any desire to interfere in Great Britain's domestic policies. But Mr Hughes did not conceal his impatience, e g Cd 9177 of 1918, p 84

[3] Cd. 8642 of 1917, p 420.

risked their fortunes with those of the Mother Country. They have shed their blood with her blood. They have shown that, though seas separate the Empire, and, in some respects, the interests of one part may differ from those of another, it is still one and indivisible; that together we stand, or together we fall In short it has come to be understood that the man or woman who leaves Britain is not lost to the Empire, but has gone to be its stay and strength in other Britains overseas. The only risk of losing such a one is when the new home is shadowed by some other flag.'[1]

The prime ministers of the Dominions were ready to applaud this statement. They felt their countries to be comrades in the same cause and members of the same Commonwealth. And each one of them believed that his own country was on the threshold of a great advance They wanted all the British settlers whom they could get, and agreed with Great Britain that she must no longer be indifferent while her sons and daughters 'drifted away to other countries'.[2] Each successive imperial conference reiterated its faith in the ideal of 'the redistribution of the white population of the Empire in the manner most conducive to the development, strength and stability of the whole'.[3]

Achievement, however, persistently lagged behind aspiration. When in November 1918 the armistice was signed, there was still a complete lack of co-ordinating machinery for 'the redistribution of the white population of the Empire'. The reason for this lack was in large measure due to the unsolved constitutional problems which have been discussed in an earlier volume These problems could not be conjured away by flights of oratory. The two committees which reported in 1917 advocated a 'central emigration authority'. But how could an Empire which had no central government establish such an authority? To whom would it be responsible? The Dominions Royal Commission expressed the opinion that it must be a purely British body under the control of a responsible British minister, but keeping in close touch with a consultative body on which the Dominion governments should be represented Lord Tennyson's committee was more ambitious, it recommended a mixed British and Dominion board with executive power and ultimate responsibility to the parliament of the United Kingdom.[4] This proposal reflected the war-time enthusiasm for unity, but ignored the facts of responsible government. The prime ministers of the Dominions could not

[1] Cd 8672 of 1917, p 2 The chairman of this committee was Lord Tennyson
[2] Cd 9177 of 1918, p. 36.
[3] Cmd 1474 of 1921, Resolution V.
[4] Cd 8672, p. 25

surrender their migration policies, or even the smallest part of them, to an authority which admitted responsibility to the British parliament and admitted no responsibility to Dominion parliaments. They could not permit their own paid servants to be controlled by the representatives of British constituencies. They made their attitude clear at the Imperial War Conference of 1918.[1] Thereupon, by a hasty improvisation, the British government set up its own organization, with which Dominion representatives were only consultatively associated.

There remained a still more potent cause of uncertainty which not even the most perfect administrative machinery would have availed to remove The unresolved problem of 'the one and the many' had a deep constitutional significance precisely because it had also a deep political and social significance. British statesmen, despite their reiterated appeals to 'the interests of the Empire as a whole', were preoccupied chiefly with the interests of Great Britain. It became clear at the very beginning of the discussion that the revival of mercantilist population policies might express itself more powerfully on the insular than the imperial scale The Dominions Royal Commission had itself raised 'the question of the extent to which emigration of the male population can be permissible'. It stated definitely that Great Britain could no longer spare any of her agricultural population, and that she had already in the years before the War sent abroad too many men in the age group 18 to 30.[2] Lord Tennyson's committee, despite its imperial enthusiasm, expressed a similar national preoccupation, and confessed itself unable to state a policy which would be appropriate to the still unpredictable circumstances of peace time [3] Responsible ministers spoke to the same effect. At the Imperial War Conference of 1918, Mr. Walter Long stated: 'His Majesty's Government cannot at the moment say what their attitude will be after the War as regards encouragement of emigration.' The government, he said, would certainly not pledge itself to the grant of 'large financial assistance'. It would promise nothing more than administrative preparation designed to direct the flow of emigration, should it occur, to countries within the Empire.[4]

The assumption was Great Britain first, the Empire second, foreign countries third It was also assumed that the Dominions and foreign countries would continue to be eager competitors for

[1] Cd 9177 of 1918, pp 42 ff, 123 ff, and Resolution XIII.
[2] Cd 8642, chapter viii
[3] Cd 8672, paras 148–50
[4] Cd 9177, pp 35–6

settlers whom Great Britain might or might not be willing to supply. It is a pity that the Dominions Royal Commission, which approached the migration question with a considerable degree of scientific detachment, did not consult American studies on 'the significance of the frontier in American history'. If it had done so, it might have corrected the balance of its report by some reflections upon the slackening absorptive capacity of the New World economies. Twentieth-century America, in effective occupation of its economic frontiers, could hardly be so receptive of immigration as had been that westward-striding America of the nineteenth century.[1] The United States immigration law of 1921, with its quotas, was a natural, perhaps even a tardy, announcement to the outer world that the frontier period in American history was closed. Supposing the frontier period should be closed or closing in the Dominions also? Would they not also become less hospitable to immigrant settlers, even from Great Britain? And supposing that standards of comfort and security in Great Britain should be brought up to the Dominion level, or close to it? Would not this fact remove one of the chief pressures which had been responsible for the outward flow of population? But considerations of this kind were very far from the minds of statesmen when the Great War ended It was for other reasons that British statesmen desired to wait upon circumstances. As for the Dominion statesmen, all of them in greater or less degree shared the optimism which the Australians were wont to express in a then popular phrase, 'Australia Unlimited'.

It was the forecasts of British statesmen which first had to be revised. At the end of 1918 they were still suspicious of large emigration policies, by the end of 1919 they were desperately anxious to hurry them on In December 1918 the government established the Oversea Settlement Committee—at first known as the Government Emigration Committee[2]—to advise and assist it on all matters connected with settlement within the Empire, and with emigration to foreign countries. Within a few months the committee had prepared a memorandum for submission to the Secretary of State for the Colonies. The memorandum asserted that the development of

[1] It has been roughly estimated that in the nineteenth century Europe sent 45,000,000 immigrants to America

[2] *Report of the Oversea Settlement Committee for the year ended 31st December 1919*, Cmd 573, p. 2 'The Committee's title was changed to that of Oversea Settlement Committee with a view to bringing out the distinction between settlement overseas within the Empire, with which the Committee are principally concerned, and emigration to foreign countries' Cf Cmd 1474 of 1921, p 62, for adoption by all the governments of the distinction between 'overseas settlement', 'Empire settlement', or 'British settlement' on the one hand and emigration and immigration on the other.

the population and wealth of the whole British Empire was 'the key to the problem of post-war reconstruction'. But it did not conceal its distrust of ambitious schemes The ideal to be sought, it argued, was a 'due adjustment' between the needs of Great Britain and the Dominions, an adjustment which would ensure that Great Britain's manpower and taxable capacity 'should not be weakened in the process of Imperial development'. It hoped for 'a constant flow of emigration neither in excess of what the United Kingdom or any section of it can afford to spare, nor in excess of what the Dominions can conveniently absorb'. In general, it rejected the idea of government aid to emigration which even without that aid, might well be 'inconveniently large' but it favoured making an exception to this rule by granting free passages to soldiers who were willing and fitted to settle overseas, and perhaps giving the same assistance to women and some classes of children. It considered its own function to be one of information, guidance, and control. It desired this function to be made clear by parliamentary act, and it recommended a conference of United Kingdom and Dominion ministers for the discussion of the whole problem [1]

As the committee felt called upon to explain later, it drew up this memorandum at a time 'when the transition from War conditions was causing a temporary revival of peace industries, and the Committee were authoritatively advised that there was more risk of a shortage of labour in the United Kingdom than of a surplus of population'.[2] The boom was a short-lived one In its first annual report, the committee compared the situation at the end of 1919 with the situation which had followed the Napoleonic Wars [3] By the spring of 1920 the conditions of trade and employment had become very unfavourable. The committee now came to the conclusion that the population of Great Britain was larger than its industries would be able to absorb for a long period of time. It now advocated an imperial population policy unqualified by any national reservations.

> 'The Empire as it exists to-day', the committee declared, 'was largely built up by the policy of State-aided emigration inaugurated by His Majesty's Government a hundred years ago. That policy has profoundly influenced the world's history during the past half-century. It may be hoped that if it is now found possible for His Majesty's Government, in co-operation with the governments of the self-governing Dominions, to inaugurate a new policy of a like character, the result will be no less important than it is beneficial '[4]

[1] Cmd 573 of 1920, pp. 4–6.
[2] Cmd. 1804 of 1923, pp. 5–6.
[3] Cmd. 573 of 1920, p 14.
[4] Cmd. 1134 of 1921, p 12.

Empire settlement aided by the Empire's co-operating governments was, therefore, the policy which the British government put before the Dominion governments at the special conference which met in February 1921 The government proposed to extend to other classes the help which it was still giving to ex-service men. It was willing, through the Dominion governments or through voluntary organizations, to make advances to approved settlers of sums up to a maximum of £300, provided the Dominion governments would undertake to contribute pound for pound It was willing also to join with the Dominions in financing schemes which would attract settlers to the land. For these purposes it was prepared to provide £2,000,000 per annum The Dominion representatives found the scheme an attractive one It was true that their countries too were suffering from depression and unemployment, and that their trade unionists were apprehensive of immigrants entering to compete for jobs. They imagined, however, that if only they could get the new settlers past the cities into the country, this competition would not make itself felt. On the contrary, the inflow of cheap capital and of willing workers would set in motion a process of development which would ease the employment situation in the cities themselves. And a vision of a far mightier empire of settlement under the British flag stirred their imaginations Only South Africa stood aside from the scheme, because of 'the limited field for white labour' in that country [1]

The agreement reached at the special conference in February 1921 was confirmed by the Empire's prime ministers, subject to the approval of their respective parliaments, at the full conference which met later in the same year. Thereafter the British government took the lead by carrying through parliament the Empire Settlement Act, 1922. The Act made provision for co-operation by the Secretary of State for the Colonies with any Dominion government, or with approved private organizations, in carrying out agreed schemes to assist suitable persons from the United Kingdom to settle in the Dominions. The sum to be made available by the United Kingdom Treasury in any financial year must not exceed £3,000,000 The Secretary of State must not agree to any scheme without the Treasury's consent, nor must the British government contribute more than half the cost of a scheme or shoulder a liability which would last for more than 15 years after the passing of the Act. These negative provisions simply underlined the plan of positive and immediate action which the new measure promised Mr. Amery, in explaining the Bill to the House of Commons, said that its aim was not merely

[1] Cmd. 1474 of 1921, Appendix V.

to relieve the immediate crisis, but 'to find a permanent constructive remedy for the enduring problem of the economic situation which the War has left behind it'.[1] A redistribution of the white population of the Empire would restore economic vitality both in Great Britain and the Dominions. And that redistribution would now be made on a grand scale. About £1,000,000 of the available funds would be spent on assisted passages and training for settlers; Dominion contribution on a pound for pound basis would double this sum. Mr. Amery believed that this part of the programme alone would set in motion an annual flow of 60,000 to 80,000 new settlers, and a greater flow still when the successful settlers began to pay back into the fund the advances it had made to them. And there was another part of the programme which was still more promising. £2,000,000 of the British vote would be available every year on a pound for pound basis to finance the developmental enterprises of Dominion governments. These would naturally vary in kind, some of them would aim at the establishment on the land of individual settlers, and others, still more promising, would aim at the establishment of groups or communities If the contributions of the British and Dominion governments were used for the payment of interest on loan, very large sums of capital would be available for achieving results of striking significance. Mr Amery referred to a scheme which the Commonwealth government was already negotiating with Western Australia and in which Great Britain would have the chance of participating Each of the three governments would contribute a third of the interest, 75,000 persons would be settled on the land, the cost to the British government—excluding passage and training cost—would be about £8 per person settled. It was an encouraging prospect. The hopes of the Wakefield age were being re-kindled. In Great Britain there was too little room. In the Dominions there was plenty of room.[2]

Public opinion in the overseas Empire varied from one Dominion to another and varied within each Dominion according to the position of classes and parties. At one extreme stood South Africa, where General Hertzog opposed even the policy of advertisement which represented South Africa's entire effort at attracting immigrants;[3] at the other extreme stood Australia, where even the labour party half forgot its fear of a congested labour market in its new vision of a great continental development. Provided the newcomers were ab-

[1] *J P.E*, vol III, pp 329 ff.

[2] Cf *Report of the Oversea Settlement Committee for the year ending 31st December 1922* Cmd 1804 of 1923, p 8 'The new policy seeks to relieve congestion here and people the waste spaces overseas'

[3] *J P E*, vol III, p 926.

sorbed into pioneering and primary production, the Federal labour party was prepared to support the new drive for population.[1] In the States, there were labour politicians whose enthusiasm rivalled that of their political opponents. The leader of the labour opposition in New South Wales, Mr Dooley, looked forward to a day when Australia would contain a hundred million inhabitants. And Australia would not repeat America's error; her hundred million inhabitants would be a hundred per cent. British! Mr Dooley's political adversaries echoed his sentiments with fervour. 'If at the commencement of the War', one of them declared, 'they had had 100,000,000 white people under the Union Jack, there would have been no need to ask for the assistance of any one There would have been no war, because the British people would not have allowed it. But now, because there was a greater aggregation of white people under another flag, they had to take a second place ' These Australians were determined to set this matter right.[2]

The Federal government and the State governments busied themselves in working out practical schemes which would start the flow of British settlers, and prove to the world Australia's determination to show herself 'worthy of inheriting a continent'[3] Already in 1920 the Premiers' Conference had made an agreement which gave to the Commonwealth the charge of the organization in Great Britain and of transport to Australia, leaving to the States responsibility for dealing with the immigrants when they arrived, and the right to determine the number and class of those who should be assisted to arrive. The time had now come to give to this partnership a positive content. Agreements were rapidly made between the Commonwealth government and the governments of Western Australia, Victoria, and New South Wales. In each of these agreements the government of the United Kingdom was also a participator. The plan for Western Australia followed the lines which Mr. Amery had already forecast, and it may be cited as a model to which the other plans more or less conformed. The government of the State undertook to receive 75,000 new settlers (men, women, and children) within a period of three years, and to establish about 6,000 families on farms of their own, at an estimated cost (excluding passages) of £6,000,000. The Commonwealth government undertook to raise on behalf of the State government the necessary loans The British government undertook

[1] *J P E*, vol iii, p 826 (Mr Charlton) The Oversea Settlement Committee emphasized repeatedly that the policy was 'a policy of settlement on the land and only on the land' (Cmd. 1804, p 8)

[2] *J P E*, vol iii, pp 639, 853 ff

[3] Ibid, p. 829 (Mr W. M Hughes)

to contribute towards the scheme a sum equivalent to one-third of interest on the loans for a period of five years [1]

Side by side with these ambitious enterprises, the ordinary work of selecting and assisting settlers was going on with the added stimulus of the money provided annually under the Empire Settlement Act.[2] It was, under all the circumstances, natural to expect an immediate and dramatic acceleration of empire migration. This did not occur. The Imperial Economic Conference which met in the autumn of 1923 was constrained to confess its disappointment.[3] It declared the results which had been achieved to be 'incommensurate with the needs of the situation'. Why was this? Experience of economic circumstance suggested one obvious answer Migration had always fallen off in times of depression But this answer was not good enough for the governments of the Empire. They had thrown down a challenge to economic circumstance They had banded themselves together to fight their way out of the depression According to their theory, development of 'the vast open spaces' should both directly and indirectly stimulate the flow of settlers, quicken the rhythm of general economic activity, and so still further stimulate the flow. This theory they still maintained They must have still more development. They needed still more 'money' to stimulate the flow of 'men'. But they needed something else. They needed 'markets'. 'Men, money and markets', declared the Prime Minister of New Zealand, 'are fundamental considerations '[4] 'The problem of Empire development', declared the Prime Minister of Australia, 'is dependent upon three things, men, money and markets.'[5] And he went on to argue that without the markets the men and the money were of little avail. For what had happened to the returned Anzacs who had been settled on the land? Many of them had been set to grow fruit. The State had provided the land, the Commonwealth had provided the finance, the men had grown the fruit They had grown more fruit than they were able to sell. The Commonwealth government had been forced to come to their aid; in the past three years it had lost £600,000 in helping them. The same thing would now happen on a larger scale unless the problem of markets were faced and solved.

What was the use of developing empire resources and establishing empire settlers if these settlers were not guaranteed an empire market? 'Markets mean migration.'[6] But the markets must be

[1] The schemes are summarized in Cmd 2107 of 1924, Appendix II

[2] Space forbids a detailed examination of the various categories, child migration, the nomination system, the activities of voluntary societies, &c See Cmd 4075 of 1932, Appendix V

[3] Cmd 2009 of 1924, pp 137 ff.

[4] Ibid, p 36

[5] Ibid., p 58.

[6] Ibid, p 74

protected ones. All the Dominion statesmen were in agreement about this. 'You cannot', said General Smuts, 'fairly claim that the Dominions should in very large numbers take immigrants from these islands and at the same time refuse to help the Dominions in taking the produce of the work of their hands.'[1] 'Migration and preference go together,' declared Mr. Massey.[2] So the three ideas which had been loosely thrown together in Resolution XVI of the Imperial War Conference of 1917 were now at last fused into a closely knit programme. Development, migration, and imperial preference stood together. The Conference of Prime Ministers in 1921 had initiated a programme based on the first two ideas. The Imperial Economic Conference of 1923 met with the determination to insist upon the third idea, and to see it translated into active policy.

In the struggle for imperial preference, it was still the Dominions who took the initiative. Throughout a quarter of a century they had persistently embodied in their own tariffs the principle of preference. Since the War they had thrown greater emphasis upon the principle. Canada had drawn very much tighter the bonds between herself and the West Indies,[3] and she was attempting to establish enduring preferential relations with Australia.[4] Her government also claimed —though resentful free-traders in Canada disputed the claim[5]—that she had enlarged the favours which her tariff granted to Great Britain. Australia and New Zealand adopted the Canadian device of a three-line tariff, with separate preferential, intermediate and general rates.[6] These two Dominions had some difficulty in straightening out their relations with each other. Australia, unlike South Africa, had never made a reciprocal agreement with New Zealand. New Zealand considered her young industries threatened by the older industries of Australia, and temporarily excluded Australia from the preferential advantages which she accorded to the Empire at large. Australia did not relish the prospect of being permanently placed second to South Africa in New Zealand markets with regard to such important commodities as wine. These competitive manœuvrings indicate the divergencies of interest concealed under the affirmations of devotion to 'the

[1] Cmd. 2009 of 1924, p. 48. [2] Ibid., p. 37.

[3] *J. P. E.*, vol. ii, pp. 743 ff. West Indies Trade Agreement Act. In contrast with the 1912 agreement, this one (*a*) included all the West Indies except Bermuda, which was afraid to jeopardize its relations with the U.S.A., and (*b*) raised the preferential rate. Canada granted a 50 per cent. preference on everything except tobacco and liquors, the West Indian preferences varied from 33½ per cent. in the Windward Islands to 10 per cent. in the Bahamas. There were also some specific preferences.

[4] *J. P. E.*, vol. ii, p. 824, vol. ii, pp. 621, 776.

[5] Ibid., vol. iii, pp. 618 ff.

[6] In theory only: the Australians did not use their intermediate tariff until 1937.

interests of the Empire as a whole'. But Australia and New Zealand found themselves able to conclude a reciprocity agreement which each of them considered to be a fair compromise.[1] At the same time, both countries advertised loudly their extensions of preference to Great Britain. The New Zealand tariff of 1921 raised the number of specific items on the preferential list from 100 to 300. The Australian tariff of the same year heavily underlined the basic purpose of national protection; but while it aimed its blows both against British and foreign manufacturers, it emphasized and extended the preferential advantage accorded to the former.[2] In theory, there was in these extensions of preference no intention of bargaining: Australia and New Zealand were combining a demonstration of their imperial solidarity with the pursuit of their own interests. But a New Zealand member interjected during the tariff debate, 'Britain must reciprocate'![3] And in the Australian parliament the responsible minister himself declared '. . The policy could not go on for ever without reciprocity'.[4] The drift of British fiscal policy during the War and in the early years of peace encouraged hopes that the day of reciprocity was near.

'Both in the Dominions and Great Britain', *The Economist* declared, 'the demand for preference comes from the protectionists, and what they really want is protection.'[5] In this statement there is at least this much truth, that it is impossible to separate the story of Great Britain's conversion to imperial preference from the story of the gradual overthrow of her national free-trade system. The first significant breach in this system was made by the McKenna duties of 1915. These duties were at the rate of 33⅓ per cent. *ad valorem* upon certain 'luxuries', such as private motor-cars, clocks, watches, films, and musical instruments. In theory these duties arose wholly out of the war-time emergency; they aimed at raising revenue, strengthening the sterling exchange, and relieving shipping. They granted no preferential rate to empire countries. They did not avowedly aim at protecting British producers. Yet they were not balanced by excise taxation of equivalent amount, and they did quickly prove themselves to be protective in effect. It is indeed hardly honest to deny that the protective intention was present among many supporters of the duties at the very beginning. 'I was satisfied with the Budget', wrote Mr. W. A. S. Hewins in his diary. 'No doubt it

[1] *J. P. E.*, vol. ii, p. 879, vol. iii, pp. 204, 391, 848.
[2] See summary table in *J. P. E.*, vol. ii, p. 879.
[3] Ibid., vol. iii, p. 173.
[4] Ibid., vol. ii, p. 880.
[5] *The Economist*, vol. clxxxvi, p. 358.

was easy to satisfy me. I was so pleased at having smashed the Free Trade system at last. We can build upon the government concessions '[1]

The author of this jubilant exclamation had been organizer of the Tariff Commission established by Joseph Chamberlain, and during the War he was the leading spirit in the business committee of the Unionist party, a group of politicians ready to work unremittingly for protection and preference. No doubt Mr. Hewins magnified unduly the importance of his associates and of himself. It is clear from his diary that he believed himself to be a kind of Warwick, a maker and destroyer of governments; but in 1917, when he was becoming too much of a nuisance, the coalition government easily kept him quiet with an under-secretaryship, and at the time of the coupon election it dispensed with his services both in the ministry and in parliament. Yet his activity behind the scenes was at times effective, and his diary reveals connexions which really existed between the reviving pressure of the tariff reformers and a series of events which they viewed as parts of a linked system—the McKenna duties, the resolutions of the Paris Economic Conference, the reports of the Balfour of Burleigh Committee, and Resolution XVI of the Imperial War Conference of 1917.[2] The dominant note in Mr. Hewins's diary throughout the year 1917 was one of struggle culminating in triumph. That note, however, dwindled during the following twelve months At the end of 1918 Mr. Hewins was recording his disillusionment with the government. 'They can't make up their minds about economic policy.' Or, worse still—so Mr. Hewins thought—they had made up their minds against any far-reaching change in economic policy. The coalition government which at the end of the War made its appeal to the country was in his opinion formed on a compromise which made any such change impossible.[3]

This appraisal of the situation was not very wide of the mark. On 29th July 1918 the leader of the conservative party, Mr. Bonar Law, announced that his party would carry out the promise of preference which the British government had given to the Imperial War Conference in the previous year; but at the same time he repudiated food taxes, which were the essential condition of those particular preferences which most interested the Dominions.[4] On 2nd November 1918

[1] Hewins, op cit, vol. ii, 24th September 1915.

[2] On the sequence in these events see above, Chapter I, section i Cf. *House of Commons Debates*, 5th series, vol. xcii, cols. 2391, 2125.

[3] Hewins, op. cit, vol ii, pp. 180, 181

[4] *House of Commons Debates*, 5th series, vol cix, col. 39. Cf. ibid, col 614. 'This government has accepted the principle of preference, and nothing more '

Mr. Lloyd George wrote to Mr. Bonar Law a letter in which he announced his readiness to grant preference on duties already existing and on any duties subsequently imposed; his letter excluded food taxes, though it promised preferential rates on tea, coffee, and cocoa, which were already subject to duty. On 30th April 1919 Mr. Austen Chamberlain introduced the budget. It made no changes in Great Britain's fiscal policy but instituted preferential rates on those duties which already existed.

Ardent protectionists joined with ardent free-traders in belittling the present value of these preferences But the two schools were also in agreement, albeit with contrasted hopes and fears, in anticipating large consequences from these small beginnings. Mr. Bottomley prophesied the formation of 'one great unit whose fiscal policies are its own affair'; however, he warned the government that it must move forward, not by its present method of lowering duties, but by the more patriotic method of raising them against the foreigner.[1] Lieut.-Colonel Meysey-Thompson saw the most glowing visions—an enormous reduction of the war debt, an Empire which would 'supply all our needs', an Australia with 50,000,000 inhabitants, and an England rich once again in the attractions of the country-side—'hunting, shooting, farming and so on'.[2] Free-traders gloomily prophesied the loss of the China market and the collapse of Lancashire. For in their eyes the present trifling preferences were 'the thin end of the wedge'.[3] In themselves they were 'laughable', but, as ever, preference was 'the stalking-horse to protection'.[4] 'If you set up the machine to work up the little things', declared Sir Donald Maclean, 'the machine will go on to great things'.[5] Government spokesmen welcomed this challenge to the principle of the budget, the challenge made it easier for them to rally the fighting spirit of the protectionist rank and file which was disappointed by the budget's un-heroic detail. Mr. Austen Chamberlain was Chancellor of the Exchequer, he adorned his speech with expressions of proud filial memory and of imperial patriotism. He expressed the hope that his budget would kill once and for all the timid doctrine that imperial preference was a matter of legitimate grievance to foreigners—a doctrine which 'no other country in the world would tolerate'.[6] He did not admit that preference without food taxes was merely a 'shop window policy'. He insisted that the present budget would confer

[1] Ibid., vol. cxv, col 409.

[2] Ibid., col. 507

[3] Ibid., col. 395.

[4] *The Economist*, vol lxxxviii, p 717

[5] *House of Commons Debates*, 5th series, vol. cxv, col 396.

[6] Ibid, col. 493.

very important benefits upon empire producers of such commodities as coffee, sugar, tobacco, dried fruits, and wine. At the same time he agreed with his critics on both sides of the House that the present day's work was only a beginning. The way would be open in the future for 'almost limitless expansion'.[1]

But the protectionist interest in the United Kingdom demanded present satisfaction. Before the election it had been promised an act to restrain dumping, a promise which Mr. Hewins regarded as 'a sop to the tariff reformers . . . deliberately intended to deceive'.[2] During 1920 some abortive anti-dumping legislation was introduced into parliament. In the same year effective protection was given to the dye industry. In 1921 an important measure, the Safeguarding of Industries Act, became law. This Act contained provisions designed to deal with dumping, but it also contained a good deal more To certain 'key' industries it gave immediate protection, by duties which normally were $33\frac{1}{3}$ per cent. but in some cases were 50 per cent [3] In addition, it established a procedure by which any industry could apply for the imposition of a 'safeguarding' duty not exceeding $33\frac{1}{3}$ per cent [4] In accordance with the pledges given in 1917–19, the extension in the range of duties meant an extension in the range of preference. Empire goods were exempted altogether from the key industry duties. On the safeguarding duties they were granted a preferential rate.

It would be out of place here to examine in any further detail the advance of protection in Great Britain. Until the black winter of 1931–2 it remained very slow. 'In 1930 only 17 per cent of total

[1] *House of Commons Debates*, 5th series, vol cxv, col 297 The most important items included in the second schedule of the Finance Act of 1919 were tea, cocoa, coffee, chicory, currants, dried or preserved fruits, sugar, glucose, molasses, saccharine, motor spirit, tobacco On all these items the preferential rate of duty was five-sixths of the full rate. The margin of preference on wines was higher, but varied according to the percentage of proof spirit contained

[2] Hewins, op cit, vol ii, p. 180

[3] The chief classes included in the 'key' industries duties imposed in 1921 were optical glass (50 per cent duty), scientific glassware, scientific instruments, wireless valves, ignition magnetos and permanent magnets, carbons, hosiery latch needles, tungsten, molybdenum, synthetic organic chemicals. For a full list see *H M. Customs and Excise Tariff*, 1934, pp 100–1

[4] On the stringent procedure finally adopted to test the validity of a claim for a safeguarding duty see *British Economic Foreign Policy*, by J H Richardson (Allen & Unwin, 1936), p 89 The conditions set out were importance of the industry, abnormal importations, resulting unemployment, competition through subsidy or low wages, absence of injury to other industries through imposition of a duty. These conditions were not always strictly insisted upon, particularly at the beginning. Early beneficiaries from safeguarding duties were British manufacturers of gloves, domestic glassware and gas mantles Among beneficiaries after 1925 were the leather, glove, lace, cutlery, pottery, packing paper, and enamelled hollow-ware industries.

imports (value) from all foreign countries paid any duty, including revenue tariffs. The stream of free trade, although no longer pure, was only slightly contaminated.'[1] Imperial preference advanced no more rapidly than did national protection. Most of the preferences granted under the Safeguarding of Industries Act were purely formal, because the outer Empire was not in a position to produce the articles which were enumerated. As in Joseph Chamberlain's day, the preference which most interested the Dominions could not be granted unless the United Kingdom consented to tax food This was the genuine imperial preference which the prime ministers of the Dominions hoped to secure at the Imperial Economic Conference of 1923.

Political circumstances appeared upon the surface to be unusually favourable to their attempt. The coalition government led by Mr. Lloyd George had fallen At the end of 1922 the electors returned to office a conservative government under Mr. Bonar Law That government at once pressed forward with the plan of a special Imperial Economic Conference, which the tariff reformers had been persistently advocating; in April 1923 it was able to announce that this gathering would take place, side by side with a political gathering of the usual type, in October of the same year[2] Both in Great Britain and in the Dominions the propaganda for large extensions of imperial preference became intense The free trade interest in Great Britain was directly or indirectly assailed by the leagued forces of Dominion governments, the British conservative party, and a phalanx of ardent propagandist societies[3] Conservative speakers presented to the House of Commons the very arguments which Australian or New Zealand ministers addressed to Great Britain; in press and parliament the same arguments were quoted back again across the oceans. It was almost as if the Empire were becoming a single constituency. In April the House of Commons was reminded that trade tended increasingly to follow the flag; the percentage of United Kingdom exports to the Empire, which in 1913 was 32·2, had risen in 1922 to 40. One white Briton overseas bought as much as eleven or twelve white foreigners, and one coloured British subject bought as much as twelve Chinese or Japanese. Was it not both sound business and sound patriotism to develop this great and promising market? But the market was threatened. The United States was already supplying Canada with 72 per cent of her imports.

[1] Richardson, op cit., p. 90.

[2] *J.P E*, vol iv, p. 227

[3] e g the Empire Development Union, established *ad hoc* under the presidency of Mr. Walter Long to fight for preference

Unless the British government took speedy action, British manufacturers would be crowded out of the Australian market also. Australia granted preferences worth £9,000,000 to British trade, and received in return preferences worth a beggarly £257,000. This could not go on [1] No! declared Mr. Bruce to the Australian parliament, this could not go on He did not speak in complaint or threat. He spoke as an Australian patriot but also as an imperial patriot. Australia was anxious to do great things in relieving Great Britain of her surplus population. But Australia could do little unless she could find a market for her surplus products. She had received many offers of reciprocal trade treaties which would open to her in foreign countries the outlet which she must find somewhere But she wanted to find it within the Empire. Conservative orators in Great Britain eulogized this loyal sentiment. But they asked, as Mr. Bruce had felt himself compelled to ask, how long could it stand the strain ?[2]

These arguments were open to various criticisms, some of which were uttered by the free-traders. It was correct to emphasize the importance of the empire market, but it was a mistake to suggest that foreign markets were not also of great importance. For some countries of the Empire, contrary to the general argument of the imperial preference propaganda, foreign markets might, in the future, become increasingly important.[3] It was absurd to cast upon British policy the chief blame for Canada's commercial intimacy with the United States, or to assume that this intimacy was undesirable: to do so was to show a profound indifference to the facts of geography and an uninstructed obsession with a simple two-way balance of trade. There were other weaknesses in the argument. The argument built on *per capita* purchases demanded critical examination.[4] The method adopted for calculating the value of the Australian preferences was crude and misleading. But the British government did not see this.[5] It did not want to see it, the President of the Board of Trade, though he insisted that the preferences granted by Great Britain had real value, issued a statement which in general accepted the correctness of the Australian calculation.[6] Even before the con-

[1] *J P E*, vol iv, pp 443 ff [2] Ibid, pp 840 ff.

[3] Mr Charlton, leader of the labour opposition in Australia, showed considerable foresight in pointing this out. Ibid., p. 846

[4] See below, pp 210–11

[5] It was pointed out by the South African delegate at the Imperial Economic Conference (Cmd. 2009, p 191) See further *The Australian Tariff*, report by a committee of experts (Melbourne, 1930), Appendix

[6] Cmd. 2009 of 1924, p 175 It is too often forgotten that the expansion in the British market of Empire tobaccos, coffee, dried fruits, &c, was greatly stimulated by preferences going back to the Finance Act of 1919.

ference met, the British government had to a very great extent made the cause of the Dominion governments its own.

Nevertheless, political circumstances were in one decisive respect unfavourable to the drive for extending imperial preference. The conservative government in Great Britain did not possess an absolute majority in parliament It held office with the uncertain support of the liberal party in face of labour opposition. It had, moreover, shown itself aware that a majority in the constituencies still held to the free-trade tradition. At the time of the 1922 election Mr. Bonar Law had pledged his party not to make any fundamental change in the fiscal system of the country during the present parliament When the leadership of party and government passed from Mr. Bonar Law to Mr Stanley Baldwin, the government reiterated that pledge [1] It was a pledge which the tariff reformers profoundly regretted. They nevertheless argued that it left to the government a very wide extent of freedom. Safeguarding duties already existed, it would not be 'a fundamental change in the fiscal system' to add to their number. Preference had been repeatedly affirmed in principle and had been applied in practice, it might be extended.[2] The Dominion prime ministers comforted themselves by similar arguments. Why should not preference be granted through freight subsidies? Why should not preference in government contracts be increased and extended? Why should not the existing 20 per cent. tariff preferences on currants, on dried fruits or sugar be made 100 per cent. preferences by a complete remission of duty on the Empire product?[3] The Dominion statesmen intended to ask for these concessions, some of them intended to ask for a good deal more.

Not that they had any intention of interfering with Great Britain's domestic policy or of attempting to strike a bargain. When they assembled at the conference, they protested, one after the other, that they had no such intention. The President of the Board of Trade protested in his turn that his government suspected them of no such intention. The statesmen of the Empire had assembled, he reminded them, to 'speak frankly together': let them all state their desires and difficulties. They accepted the invitation. It was Mr. Bruce who put most clearly what was in all their minds.[4] Men, money, and markets, he repeated, were indissolubly connected, but markets were the 'outstanding question', the 'vital problem'. If this problem were

[1] *J P E*, vol iv, p 741

[2] Hewins, op cit, vol ii, p 275.

[3] *J P E*, vol. iv, p 841

[4] *Imperial Economic Conference Record of Proceedings and Documents* Cmd. 2009 of 1923, pp 31, 37, 45, 57 ff.

solved, the problems of Empire development and Empire settlement would be solved also. The first step to a solution was to 'make the existing preferences effective'. The second step was to make effective the agreed principle of preference in all government contracts. Both these steps could be taken by the United Kingdom without the imposition of new duties. But there was a third step to be taken, the most vital of all. Mr Bruce had the courage to face the question of a general preference on raw materials and foodstuffs. 'It is no good', he said, 'our passing pious resolutions in favour of better preference to the Dominions and ever dodging the great issue. The issue is there and it is not the slightest use our trying to avoid it.' He proceeded to discuss the marketing problems which faced the farmers of Great Britain and the Dominions, and to lay down a fundamental standard of policy. It was the standard to which Australia and the other Dominions still adhered at the Ottawa Conference of 1932, but which in the ensuing years aroused in them increasing misgiving:

> 'I suggest', said Mr. Bruce, 'that the first objective we must have in mind . . is that we should ensure that the British agricultural producer should have priority over all comers for the sale of his produce in the British market. In Australia, educated as she has been in regard to her fiscal system, that appears to some people to be an absolutely essential factor . . As we demand that our own production shall have the first rights in our own market, we recognize that the British agricultural producer has exactly the same rights as we claim for ourselves
>
> 'The second objective is that, so far as the British farmer is not able to supply the British requirements of foodstuffs, the Dominions producer should be placed in a position to supply, to the greatest possible extent, the necessary requirements.
>
> 'In order to achieve these two objectives, the importation of foreign produce should be limited to supply the deficiency that the British and Dominion agriculturist is not able to supply
>
> 'The third objective is that we should realize that in a country such as Great Britain the consumer's point of view should have the fullest consideration '[1]

Mr Bruce then proceeded to enumerate five possible methods of achieving these objectives. The first method, the most direct method, and the one which he most favoured was that Great Britain should impose a protective tariff on foodstuffs and raw materials with preference to the Dominions. The second method was an elaboration of the first designed to give price stability, it embodied protection and preference in a sliding scale of duties The other three methods did

[1] Cmd 2009 of 1924, p 77.

not involve the use of the tariff. The first of these was the method of subsidies with a fixed home price; the second was the method of import control and licences; the third was the method of price stabilization through the establishment of a national purchase board. It appeared, after examination, that the import licences system would also presuppose the establishment of such a board A specially appointed committee of the conference reported against each of the three non-tariff methods. In their disregard of the price mechanism and free individual initiative, they seemed too reminiscent of war methods or the planning of Soviet Russia.[1]

The tariff issue was not relegated to a committee, but was discussed in the full conference. On the afternoon following Mr. Bruce's full-blooded exposition of the problem, the President of the Board of Trade brought before the conference some specific offers on behalf of the British government. It would increase the existing preference on dried fruits from a one-sixth to a one hundred per cent. preference on a duty of *10s 6d*. per cwt.; it would establish a comparable duty on currants, and to do so would denounce a trade treaty with Greece and thereafter raise the duty against the foreigner, it would impose a new duty on canned and bottled fruits and grant free entry to Dominion production, it would bind itself to give security to the sugar industry by maintaining over a long period the existing preference, it would do the same for tobacco, or else, if the Empire tobacco growers preferred, immediately increase the preference from one-sixth to one-quarter. These proposals, the minister explained, were put forward as 'an immediate and practical contribution' to the problem, they did not exclude discussion of the more sweeping suggestions which Mr Bruce had made.[2]

The Dominion governments were delighted. Canada set the tone of the discussion Canada was particularly pleased because the United Kingdom had recently removed a long-standing grievance by raising the embargo on Canadian cattle. I hope', said the Canadian representative, 'we will be able to get our other little difficulties straightened out' But he insisted that Canada was not out to bargain; she greatly appreciated the British proposals, but had not interfered and did not intend to interfere with the internal fiscal policy of Great Britain Mr Bruce expressed similar sentiments There was, however, one particular item already enjoying a preference which the President of the Board of Trade had not offered to increase. 'I merely ask the question', said Mr. Bruce, 'believe me, in no sense trying to get anything for Australia Are there any pro-

[1] Cmd 2009, pp. 199 ff, 244 ff. [2] Ibid, pp 174–9.

posals with regard to the position of wine?' Mr. Massey, in a similar spirit—'I am not pressing for an answer on this'—inquired whether the British government could do anything to put meat producers 'in a slightly better position than the people outside the Empire?' The South African representative found himself in a slightly embarrassing position The British proposals were of particular benefit to his country, but the preference which South Africa granted to Great Britain did not look impressive—a rebate of 3 per cent. of duty on a general tariff of about 15 per cent He felt called upon to deal rather sceptically with Mr. Bruce's estimate of the value of Australia's preferential performances, and to remind the conference that a low Dominion tariff might be of greater help to Great Britain than high Dominion preference. He was far from any thought of bargaining. But South Africa might be able to grant additional specific preferences: could not Great Britain improve the opportunities for South African wine? There was another matter which might be mentioned. It was not really an article of human consumption in England. Could the British government make any offer with regard to maize? And so the discussion went on and the list lengthened. The only discordant note was sounded by Mr. Innis, the representative of India. India was not ungrateful for the preferences accorded to tea, coffee, and cocoa. Perhaps she might be able to make some return by granting concessions on specific items. But she stood to gain very little, and to lose very much, from a general system of preference. In the vast complex system of international trade, amidst the play of innumerable factors, it was difficult to forecast the effects of government intervention. India, though she granted no tariff preferences, was Great Britain's best market. She took from the United Kingdom over 70 per cent. of her imports, an amount equal in value to the combined imports from Great Britain of the three great Dominions of Canada, Australia, and South Africa. But the United Kingdom took only 20 per cent. of India's exports. The great bulk of them went to foreign countries. She dare not risk her foreign markets. She had never adopted a general system of preference, and could not do so now. The government had to remember also the poverty of the Indian. And it had to remember the political factor—India's constitutional aspirations, and the resentment of Indian nationalism against the treatment of Indians in certain British Dominions and Colonies.[1]

The speech of India's representative implied a different theory of trade from that which all the other representatives assumed. It

[1] Cmd. 2009 of 1924, pp. 174–98.

implied adherence to the ideal of a multilateral exchange in which foreigners contributed just like British subjects to the wealth of nations. But imperial conferences were quite accustomed to regard India as a rather odd member of their society [1] The discussion did not deviate from its former course. The list of British concessions was lengthened by the inclusion of apples, canned salmon, fruit juices, and honey. There were also new plans for wine and barley and hops.[2] When the conference reaffirmed the 1917 resolution in favour of imperial preference, it did so with the feeling that at last there was some substance in it. But not as yet sufficient substance. Mr. Bruce regretted the decision of the British government to do nothing for wheat and meat. By this decision, he said, it had 'closed the door . . to any real strides forward in Empire development' [3]

Nevertheless the Dominion governments did not readily surrender the larger hope. While the conference was still in session Mr Baldwin announced his government's adherence to the principle of a general tariff for Great Britain This the Canadian representative declared, transformed the situation The preferences hitherto promised were within the framework of Great Britain's existing fiscal system, they had been granted freely and without bargaining by autonomous decision of the British government and parliament. But if Great Britain instituted a far-reaching change in her fiscal system, Canada would expect that 'full and adequate consideration should be given, through preferential duties, to the interests of Canada's producers and to the substantial preferences which Canada accords British goods' A new situation would be created, bargaining on a reciprocal basis would become the rule inside the Empire and outside it—'though we hope', the Canadian minister added, 'that this will not involve any lessening of the forces of sentiment and imperial policy which have operated in the past and which animate the proposals of the British government to-day'. He proceeded to give a list of the commodities on which Canada would desire a preference. They included wheat, barley, flour, fresh fruits, cheese, butter, eggs, bacon, canned vegetables, and other agricultural products, some fishery products, some forest products, metals, minerals, and a not inconsiderable range of manufactures [4]

The Dominions had to wait nine years before hopes of this magnitude were realized The liberal party in the United Kingdom decided

[1] *Survey*, vol i, pp 61, 166 ff

[2] Cmd 2009, pp. 241–3. 'Tariff Preference Summary of Proposals by His Majesty's Government'

[3] Cmd 2009, p 216

[4] Cmd 2009 of 1924, pp 207–11

that it feared the labour party's socialism less than it feared the conservative party's protectionism. The constituencies made a similar decision. Before the Dominion statesmen had all dispersed to their own countries, a labour government was in office in Great Britain The Dominion statesmen realized that their great expectations were bound to be disappointed For a time they hoped against hope that the new government would at any rate confirm the specific offers of extended preference made by its predecessor. But the labour and liberal parties, in their election fight, had attacked not merely the national protectionist proposals of the conservatives, but their preferential proposals also. They had denounced the outgoing government's offer to the Dominions as inconsistent with the ideal of 'a free breakfast table'. Were not the 1919 preferences also inconsistent with this ideal? Were not they also food taxes? The most that Mr Ramsay MacDonald would promise the Dominions was that the old preferences would remain just so long as the old duties remained. The new duties and preferences would not come into force. The old ones might before long be removed.[1]

It is not surprising that there was disappointment and protest in the Dominions, the surprising thing is that a mood of resignation so quickly ensued A motion was introduced into the Australian Senate demanding that Australia's tariff preferences should be cancelled, but the government spokesman expressed his confidence that British opinion would, despite everything, soon rally to the cause of preference. The motion was withdrawn[2] New Zealand's Prime Minister sent to the British Prime Minister a 'plain straightforward statement'. He did not conceal his belief that Great Britain was acting 'contrary to the best interests of the Empire as a whole'. He declared his inability to understand how Great Britain could allow herself to send large sums abroad in order to purchase products which she could secure from the unoccupied lands of the Empire. He looked back with wistful regret to the illumination of economic understanding which had come to the Empire's statesmen during the War. But in conclusion he made it clear that New Zealand remained, preference or no preference, the mother country's most dutiful daughter.[3]

[1] *J P E*, vol. v, p. 838. [2] Ibid., p. 550. [3] Ibid, p. 840.

CHAPTER III

THE AUTONOMOUS NATIONS OF THE COMMONWEALTH, 1923-39

I

'Men'

BETWEEN 1918 and 1923 there emerged a clear-cut economic doctrine for the self-governing parts of the British Empire. Imperial preference, imperial investment, and imperial migration were in this doctrine indissolubly linked together. In the expositions of statesmen—though not always in their innermost thoughts—it was the idea of migration which governed the other two. Preference would stimulate capital development; development would swell the trans-oceanic flow of men. It was an old idea restated with a new enthusiasm; in England there was too little room, but in the Dominions there was plenty of room. Now was the time of opportunity. If the old methods of haphazard individual effort, with a minimum of government assistance, had in the year 1913 produced a flow of 200,000 settlers from the United Kingdom to the overseas Empire, what might not the new enthusiasm achieve if it employed new methods of scientific planning? Surely England and the Dominions if they worked purposefully together, could far improve upon the record of 1913? 'If the United States', said Mr Amery in 1923, 'have grown in the last century from five millions to a hundred millions, there is no reason why, in the coming century, we should not grow to a population of two hundred to three hundred millions of white people in the Empire'.[1]

The ideal contained within itself both a social and a strategical objective. It aimed at greater wealth and well-being for a growing white population in the Empire; it aimed also at greater security and power for 'the Empire as a whole'. By what methods were these aims pursued? This is the first question which must be answered. What measure of success was achieved? This is the second question which must be answered. What were the underlying forces which determined the result? This is the last question which must be answered, and it is the most important.

The first question has already been discussed in the previous chapter, which traced the growth of migration policy and administra-

[1] *Imperial Economic Conference*, 1923. Cmd. 2009 of 1924, pp. 114–15

tion up to the passing of the Empire Settlement Act of 1922. Broadly speaking, the statesmen of Great Britain and the Dominions set out to achieve their objectives by governmental planning on a scale hitherto unprecedented. The overseas countries improved their administrative machinery and prepared themselves to spend great sums of money, Great Britain made herself a fellow-worker with them. Here was the first striking feature of the new migration policy; it became a joint enterprise of the co-operating governments of the British Commonwealth. Moreover, the co-operating governments committed themselves to a new technique. Not that they neglected the old methods. They assisted individuals with passage money, they improved their organization of training and supervision, they encouraged still more actively than in the past the score of societies which laboured so ardently to keep Great Britain 'migration-minded'.[1] But it was the new venture of planned colonization which excited their loftiest hopes. Through schemes of land settlement and development, they set themselves the exhilarating task of a frontal assault upon the vast open spaces. Their hopes knew no limit. 'Australia', declared Mr. Bruce in 1926, 'is the greatest undeveloped country in the world.... Its resources, if brought to full development, would probably solve most of the economic problems that face the world to-day.'[2]

What measure of success did these ambitious policies achieve? It will be best to set out the answer in sober columns of figures (see next page).

Between 1919 and 1937 there were only two years in which net emigration from the United Kingdom to other parts of the British Empire was more than half the number recorded in 1913 The best year (1920) could only show 134,717 settlers, compared with 223,421 in 1913. Between 1921 and 1929 the annual average figure was roughly 80,000. In 1930 it fell below 8,000. In 1931 and the six years which followed there was a steady backward flow of migrants from the Dominions into Great Britain.

By what standard of comparison are we to estimate these results? To deal first with the backward flow of the nineteen-thirties, it was

[1] *Report of the Oversea Settlement Board,* May 1938. Cmd 5766 of 1938, p. 9 There is a list of State-aided Voluntary Migration Societies in Cmd 4075 of 1932, Appendix V.

[2] Speech introducing the Development and Migration Bill, May 1926. The Act ratified the £34,000,000 agreement between Great Britain and Australia, an agreement based on a theory of a more general relation between development and migration than that contained in the specific settlement schemes which are discussed on pp. 134, 152–3. See summary in Cmd 5766, para. 67.

not without precedent: for example, Australia between 1892 and 1906 had lost on balance upwards of 20,000 persons by migration. There was, however, this difference in the nineteen-thirties: Australia was then in successive years gaining persons of foreign stock even while she was losing persons of British stock: in 1935, for example, she lost 2,173 of the latter and gained 1,884 of the former. Similarly,

Migrants of British Nationality from the United Kingdom to other parts of the British Empire[1]

Year	*Outward*	*Inward*	*Net movement*
1913	285,046	61,525	+223,521
.			
1919	115,369	67,018	+48,351
1920	198,594	63,877	+134 717
1921	136,777	52,547	+84,230
1922	118,410	49,687	+68,723
1923	157,062	44,438	+112,624
1924	132,217	47 356	+84,861
1925	105,225	42,339	+62,886
1926	132,306	39,079	+93,227
1927	122,733	42,184	+80,549
1928	108,982	46,170	+62,812
1929	106,900	43,949	+62,951
1930	59,241	51,442	+7,799
1931	27,151	53,181	−26,030*
1932	21,249	54,269	−33,020*
1933	20,760	44,642	−23,882*
1934	22,966	38,846	−15,880*
1935	24,256	35,785	−11,529*
1936	24,485	37,324	−12,839*
1937	26,111	34,167	−3,056*

* Balance inward to United Kingdom

New Zealand between 1934 and 1936 lost by migration more than 6,000 people of British stock, but made a small gain by the migratory movements of foreigners This was a most significant change. In addition, there was a difference in degree and in range between the experience of the nineteen-thirties and that of earlier periods. The backward-flow of British migration from the outer Empire had never before involved so many countries at the same time, nor had it ever occurred on so large a scale

[1] For the sake of convenience, this table is taken direct from the *Report of the Oversea Settlement Board,* May 1938, Cmd. 5766, p. 7. As from 1st April 1923 the figures are exclusive of passengers who departed from or arrived at ports of Eire Other useful figures may be found in Cmd 4075 of 1932 and Cmd 4689 of 1935 I have brought some of these figures up to date and compared them with Dominion statistics, and have at times made use of these calculations in the text

The depression years were exceptional ones. What of the happier nineteen-twenties? On the whole, they do not compare unfavourably with the decade preceding the Great War. But they do compare unfavourably with the years 1911–13. These, no doubt, were peak years; but it was their standard of achievement which optimistic statesmen had set themselves the task of surpassing. Moreover, the nineteen-twenties were themselves exceptional years; the conjuncture of severe depression in the British export industries, of rapid economic advance in the Dominions and of unprecedented financial assistance, made them distinctly favourable for a great migration effort. The great effort was made; its results cannot but be judged disappointing.

Total figures do not by themselves give the full measure of disappointment, for they do not reveal the failure of the new method of planned colonization. It was the old method of individual initiative which still contributed most to the Empire settlement. Between 1922 and 1931, 1,070,227 migrants are recorded in the statistics as proceeding from the United Kingdom to oversea parts of the British Empire. Of these, 666,325 undertook the adventure without any kind of governmental assistance whatsoever. Of the 403,902 assisted ones, a large number, including a very high proportion of those who achieved success, came under the category of nominated immigrants: that is to say, it was not merely governmental propaganda and aid, but ties of kinship or friendship, which persuaded them to transplant themselves. This is not to deny the value of the assisted passages, the grants for equipment, the training, and other forms of help from which both nominated migrants and other categories benefited; the total number of persons who were in one way or another assisted between 1922 and 1931 was 403,902, and many of them would probably have been unable to migrate if they had been denied help. But this was merely the familiar experience of the years before the war. It was the new experiments which had aroused the loftiest hopes, and it was the new experiments which most signally failed.

In its own chosen and highly advertised sphere, that of land settlement, government planning produced a series of expensive failures. Again it would be unfair to exaggerate. There were degrees of failure; there were even one or two instances of reasonable success. The Canadian 3,000 families scheme, instituted in 1924, actually succeeded in establishing 2,500 families on fair farming land at a moderate cost; it is said that this fortunate result was achieved in large measure by the wisdom of the Canadian government in interspersing the immigrant families among farmers who were already established. There

was no comparable achievement elsewhere in Canada, still less in Australia. A New South Wales project aimed at settling 6,000 farming families; it succeeded in settling 38. The ambitious group settlement scheme in Western Australia set out to establish 6,000 farming families at a cost of £6,000,000, it succeeded in establishing less than 2,000 at a cost of £9,000,000—£2,835 for each farm, according to a careful estimate. 'This is certainly development—at a price.' Even if the development produced substantial benefits in the long run, the price was excessive. It was bound for a considerable time to impose on the growing community a burden which would weaken its capacity and will to absorb new immigrants. There was also another price to pay. What of the settlers who had failed, not merely, perhaps not at all, because of their deficiencies, but because of the mistakes of government planning? A disastrous land settlement scheme in Victoria cost the State government £400,000 in compensation payments. But compensation money could not wipe out the sense of grievance among men who believed that they had been misled and mis-handled, nor could it wipe out the ill will towards Australia which spread among their relatives and friends and a widening circle of English working people. This ill will surely contributed something to the decline of 'migration-mindedness'. Englishmen spoke of Australia's vast open spaces with a sour grin.[1]

The Dominions had already begun to revise their immigration policies. Organizations which had been established to hurry on schemes of development took to themselves the task of vetoing such schemes.[2] Governments which had vied with each other in advertising the opportunities and delights of life in the vast open spaces turned off the propaganda tap, recalled their recruiting officers, suspended their money grants. It was time for Great Britain also to examine with severely critical intelligence the ambitions and assumptions which ten years earlier had prompted the passing of the Empire Settlement Act. The years 1932–8 were a time of stock-taking.

[1] On the land settlement schemes see the British blue books already cited, and in addition *Report of the Oversea Settlement Committee for the Year ended 31 December 1932*, *Report of the British Oversea Delegation to Australia*, Victoria—*Report of the Royal Commission on Migrant Land Settlement*, 1933, Western Australia—*Report of Royal Commission on Dairy Farming in the South-West*. See also Gordon Taylor in *The Peopling of Australia*, second series (I P R, Melbourne, 1933). There is an accurate and comprehensive account of all the experiments in Canada, New Zealand, and Australia by D Christie Tait in *The International Labour Review*, vol xxxiv, no 1, July 1936.

[2] e.g. Australia's Development and Migration Commission, established as a sequel to 'the £34,000,000 Agreement'. Only £4,300,000 of the £34,000,000 made available by this agreement was ever expended.

There were two fundamental questions which demanded answers. Was it to the interest of Great Britain to promote emigration to the Dominions? Was it to the interest of the Dominions to attract immigrants from Great Britain? In 1932, 1934, and 1938 three separate committees gave their separate answers to these questions.

It was the first of these committees which faced the two questions most courageously and answered them most realistically.[1] This committee believed that Great Britain was rapidly becoming what France had been for half a century, a country which could not afford emigration. Great Britain had already less than a replacement birth-rate. She would soon feel no need to protect her standard of living against the pressure of numbers. Emigration had performed this function in the past; but emigration might well become in the future the cause of economic, social, and political impoverishment. It might rob Great Britain not only of the numbers, but of the groups and classes, which she needed, for it was a highly selective process, taking 'the men rather than the women, the young rather than the old, the bright and ambitious rather than the dull and lethargic'. These dangers were not as yet immediate. Great Britain was still suffering from abnormal strains upon her economic structure, she would have to face a few more years of painful adjustment; during those few years she might ease her situation by sending abroad some hundreds of thousands (not millions) of her people But were the Dominions prepared to receive these people? There was no doubt about their long-range need for immigrants Not one of them had as yet approached its optimum density of population Each of them, except Canada, was already threatened by rapid decline of the birth-rate. All of them would have to search outside their own borders to satisfy their future population needs. But they were not at present able to pursue the search. In the past they had built up their populations on the foundation of their expanding agriculture, agricultural expansion had now been arrested The Dominions which specialized in wheat production were already facing the necessity of curtailing their production, immediately and drastically The Dominions which specialized in grass-land production were facing problems almost as grave. All the Dominions were being compelled to overhaul their economic machinery and reconsider their economic policy. Until they had done so successfully, they could not absorb immigrants.

[1] Cmd 4075 of 1932 The committee was set up by the Economic Advisory Council, it consisted of Viscount Astor, Professor A M. Carr-Saunders, Mr G D. H. Cole, Captain L F Ellis, and Mr. Christopher Turner, with Mr A F Hemming and Mr W J. Garnett as secretaries

In short, there was a disharmony between the respective short-term and long-term interests of Great Britain and the Dominions. 'Now that it might suit us to send large numbers of people to the Dominions, it does not suit the Dominions to receive them. When the time comes when the Dominions will again welcome immigrants, it may not be to our economic interest to supply the need.'[1]

Economic interest was not, of course, the only factor to be considered. The committee of 1932 believed that there were reasons of military and political strategy which would justify the attempt to maintain 'a steady flow of migration'. The appeal of these non-economic reasons has always been very strong; sometimes it has been strong enough to arrest or distort the work of thinking. The second committee, which reported in 1934, evaded the two fundamental questions which its predecessor had asked and answered.[2] Refusing to face the possibility that there had been a slackening of the Empire's nineteenth-century vigour, it found a scapegoat in the Empire's twentieth-century planning. It turned affectionately backwards to the methods of the good old days, methods which were 'individualistic, and therefore congenial to our natural bent'. It coined the blessed word 'infiltration'. Migration, it argued, should be looked upon as 'a process of pulling, not of pushing'. This was a half-truth which sounded very well. There was a great deal of useful information and a certain amount of sage reflection in the committee's report. But it shirked the really difficult questions. It comforted itself with the hope that 'normal' conditions would return again. It was determined to cheer people up. 'We see no reason to doubt', it declared, 'that the volume of migration from this country will be as great as it has been in the past.'[3]

In order to prepare for the return of the good old times, the inter-departmental committee recommended some modifications of the Empire Settlement Act (which was due to expire in 1937, unless renewed) and some improvements in advisory and administrative machinery. In accordance with these recommendations, a new Oversea Settlement Board inherited the task of surveying the migration problem. Its report of May 1938 is the third document which we shall consider.[4] It is in some respects a very curious document. It recommended 'full resumption' of the policy of Empire

[1] Ibid., p. 24.

[2] Cmd. 4689 of 1935 (Report of the Inter-Departmental Committee on Migration.)

[3] Ibid., p. 8.

[4] Ibid., paras. 176–8. Following the constitution of the Oversea Settlement Board and the publication of its first report, an Act to amend the Empire Settlement Act was passed on 19th March 1937 (1 Edw. VIII and Geo. VI, ch. 18).

settlement for reasons which were frankly political. Its estimate of the economic factors was far from optimistic. It believed that the absorptive capacity of the Dominions lay in the expansion of manufacturing rather than of agricultural production; but it confessed its doubt whether they would be able to maintain the industrial progress of recent years—years in which they had actually been losing people of British stock.[1] Nor did it fall into the mistake of over-estimating the supply of potential British settlers. It estimated the birth-rate of Great Britain to be 23 per cent. below replacement rate. It stated that Great Britain's surplus of men and women had ceased to exist.[2] And yet it hoped for a speedy resumption of migration. Why was this? 'The pressure of population', it declared, 'is not something that is passing But the centres of pressure are changing, and the change is of the deepest significance for the British Commonwealth.' Alien races, inside the frontiers and outside them, were beginning to press on the wide territorial possessions of the British race Alien ideas were beginning to challenge the ideas by which the British Commonwealth guided its way of life.[3] The sands of time were running out A few more years, and Great Britain would dare no longer to give of her own blood to her daughter nations. Let them receive the gift while there was still time.. . But was there still time? If the British people would not breed at home, was it likely that they would breed overseas?[4] The Board did not ask this question. But there was in its argument an undertone of pessimism which was in flat disharmony with the shrill urgency of its call for action It knew that no action which British people were likely to take now or in the near future would be 'sufficient to increase the population of the Dominions to any substantial extent'. Timidly, and with proper Nordic reservations, it advised the Dominions to make a start in looking elsewhere for their future strength in people.[5]

The official stock-taking of the years 1932–8 served many useful purposes. It achieved that sifting of materials which was necessary for a detailed understanding of the record of the previous ten years. It exposed the romantic illusions which had caused some of the more expensive mistakes. It erected a defence of studied experience and

[1] Cmd 5766, para 74

[2] Ibid, paras 16, 39

[3] Ibid, paras 13-15 and 24 The emphatic racial point of view of the report sometimes seems to be 'BRITISH' rather than 'british'. (On 'british' with a small 'b' see this *Survey*, vol i, pp 496–7)

[4] It would appear from necessarily incomplete statistics that immigrants into Australia have on the average fewer children than the native-born; which is natural, seeing they are engaged in establishing themselves

[5] Cmd 5766, para 48

criticism against the propaganda of the few unteachable illusionists who still survived.[1] It helped public opinion to understand how economic progress in the Dominions and social progress in Great Britain had changed the migration problem. It did all these useful things. Yet two of the three expert reports were marred by unresolved contradictions, arguments irresolutely pursued or imperfectly pulled together, and other marks of intellectual timidity. Perhaps these practical men stood too close to their problem A wider perspective may throw it into clearer relief.

Migration within the territories of the British Empire during the past century has been no more than one striking aspect of the outpouring of European peoples. This outpouring has represented a small but significant element in Europe's contribution to the increase of the world's population, which during the last hundred years has grown five times as much as in the preceding thousand [2] It has been man's increasing power over nature, in old continents and new ones, which has made possible this unprecedented spasm of increase. The geographical extension of Europe's scientific and material civilization began on a grand scale in 1492; the last great burst of expansion called into creative activity the prairie provinces of Canada In our own day this expansion seems almost to have reached its permanent limits During the four centuries of its duration, and particularly during the past century, the greatest migrations of mankind since Neolithic time have taken place Europe has called into productive activity the resources of the New World by transferring thither its own intelligence and strength and avarice, it has created a world-wide uniformity of pattern in the material activity of life by shifting from continent to continent products and techniques which once were localized. Europe's acquisitive society sought first the mineral wealth of the New World, it has always sought gold and silver and precious stones, in our own day it seeks oil also A stronger influence in sustaining, if not in stimulating, the migration of men has been the man-made migration of animals and plants. The white men brought sugar-cane to the West Indies, and a slave population with it, they brought back the potato from America to sustain the peasant increase of their own continent, by their wool they set in motion the peopling

[1] Note the comparatively realistic tone of discussion at the Empire Migration and Development Conference reported in *The Times*, 12th–14th October 1937 although there were still some utterances like the following 'New Zealand was capable of absorbing during the next half-century from ten to twenty millions of British folk '

[2] Of course, a rough estimate see R H Coats, 'Statistics come of Age', in *Canadian Journal of Economics and Political Science*, vol ii, no 3, August 1936, p. 278

of Australia; by their wheat they peopled the prairies. This was the climax.

> 'The great migrations of the last century everywhere have been into the grasslands, first into the humid and park lands, then into sub-humid lands. The story begins with Russia. It reaches its greatest sweep in the United States. It is continued in the Argentine, in western Canada, in Australia It ends, and ends for all time, in the Canadian North-west and the plains of Manchuria and Mongolia.'[1]

Is the story really ended? Are there no longer any expanding frontiers in the New World? Is the age of the great migrations finished? These are the first questions calling for an answer. But there are other questions no less important. Supposing there is still an opportunity for immigrants: can Great Britain make use of it? Can she still supply the men? Can Europe supply them? If not, what countries or continents can?

Let us look first at the answer of the Canadian prairies. The most impressive thing in the history of their conquest by European man is the break-neck speed of it. In 1867, the year of federation, they were still an estate of the Hudson's Bay Company—an estate several times as large as the original Dominion of Canada. In 1870 the Dominion took possession of them, they then contained, besides the Indians, only 12,000 people Of these the greater part were half-breeds Their chief occupation was still the fur-trade. The prairies exported no wheat until 1876, when they sent 857 bushels to be used for seed in Ontario In 1878 they sent their first small shipment to Great Britain In the early eighties they were knit to each other and to the east by the Canadian Pacific Railway. But in 1901 there were still no more than 420,000 people, European and Indian, in their three great provinces. It was thereafter that the great rush of their growth occurred. By 1911 the three provinces contained 1,328,000 people. In 1901 they contained only 15·5 million acres of occupied land; by 1911 they had added to this figure 42 million acres. Between 1901 and 1911 the acreage under wheat increased by 400 per cent. And to the men of 1911 all these things, and all the other things which they had achieved, seemed only a beginning

How did the men achieve it? They had to solve two distinct problems. a geographical problem and an economic problem. The geographical problem was purely one of the soil and the seasons, they defined it primarily as a problem of the acclimatization of

[1] See Carl D Sauer in *Limits of Land Settlement*, ed Isaiah Bowman (Council of Foreign Relations, New York, 1937), p 15.

wheat. Their experience was of higher rainfalls, shorter and milder winters, and soft wheats. At first their experience led them astray.

> 'For a number of years', a pioneer of Manitoba has recorded, 'our wheat was so frozen as to be useless No one would buy frozen wheat. It would not make flour or bread Black looking stuff it was, but we had to eat it . . . Our wheat in those days was the soft variety and it got so bad with smut . . . the buyers, when they were looking at the wheat, would put a handful to their noses the first thing and—"Pouf, smutty".'[1]

But in the eighteen-eighties the experimental farms established by the Canadian Pacific Railway were at work on a great task of research and education; they bred and preached 'Red Fife', and the farmers 'gradually got into hard wheat'. Gradually also the farmers turned from autumn sowing to spring sowing, and learnt the practice of summer fallowing. Millers in the United States of America played an essential part in the conquest of the prairies under the Union Jack, by inventing the purifier and the roller mill they made it possible to grind a white flour from hard wheat. By the early eighteen-nineties settlers in the Canadian West were confident that the most urgent problems of land and climate were already solved. But there was still much for them to learn; for northward expansion they needed an earlier ripening variety of wheat. They found it in 'Marquis', a cross between 'Red Fife' and an Indian variety. The great age of 'Marquis' and the northward push of the wheat-growers opened in 1911.[2] That age, the Canadians say, has now closed or is closing. But can it be really so? Do not the figures of population density tell a different story? Between 1926 and 1936 the northward movement of population in Alberta was equal to a rate of two feet per hour for every man, woman, and child in the province Alas, this was no confident pioneering assault upon the north It was more like a retreat than an assault Many of the northward-drifting families were in flight from the southern 'dust bowl'[3] The prairie settlers

[1] *The Story of a Grain of Wheat*, by William Edgar, quoted *Monthly Review of the Bank of Nova Scotia*, November 1937

[2] The age of 'Reward' and 'Garnet' came still later those strains ripen earlier and have made possible a further northerly expansion into forest areas which, though more costly to put under the plough, offer more hope for the development of subsistence farming than do the semi-arid plains of the south.

[3] R H Coats in *Canadian Journal of Economics and Political Science*, August 1936, p. 280 The rate of two feet per hour is a refinement of the rate of fifteen miles in ten years. But it would be wrong to interpret this movement crudely as merely a flight from southern Alberta to the Peace River It is much more complicated than that. Not only the far north, but the middle north and the central districts of Alberta have received population which has come only partly from those parts of south-eastern Alberta and south-western Saskatchewan which have been evacuated by wheat farmers

now knew what it meant to give ground as well as to take it. In the south they had overstepped the limits which climate has set to cultivation They knew that they were reaching those limits in the north.[1]

The settlement of new countries means more than a moving frontier and an assault upon wide spaces. There is a difference between 'trekking on' and effective occupation. The first assaults upon distance need to be followed by the laborious business of consolidating the ground which has been won and mopping up the strongholds of primitive wildness which still hold out within the lines of occupation. This is a task which kept the people of England and continental Europe busy for many centuries. The European communities which have occupied the New World possess the technical means of completing the task more rapidly. But their capacity to employ these technical means is determined by economic controls. Just as there are geographical limits to the extension of settlement, so are there economic limits to its intensification. The land may be in occupation, it may be in use; but effective settlement may demand an alternative use which would yield a far greater productivity and support (directly or indirectly) a far greater population. Yet the economic controls may forbid the community to avail itself of this opportunity. The power of these controls to hasten or retard the work of settlement is strikingly illustrated by the history of the Canadian West.

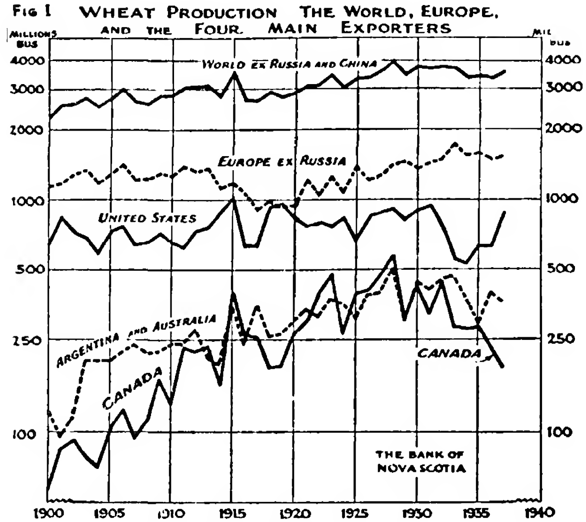
The economic factors controlling the history of the prairies have been chiefly four land, transport, technical progress, price [2] 'Plenty of cheap land', which was Adam Smith's explanation of North American progress a hundred years before the Canadian prairies were occupied, still remained the chief factor. The land was, moreover, fertile, and there was no timber to delay a spectacular exploitation of its resources [3] But this could not be achieved unless the productive forces of capital and labour were brought to bear upon the land. In the plains of Canada, as in those of Australia, the task might conceivably have been attempted by the method of subsistence farming this would have meant —and did mean when it was tried[4]— a painfully slow rate of progress, a laborious nibbling at little scraps

[1] In Bowman, op cit, p 72, Professor Mackintosh estimates that there are still 20,000,000 acres in the three prairie provinces which might possibly hold about 600,000 more people, but they are definitely inferior land and are already occupied in some fashion

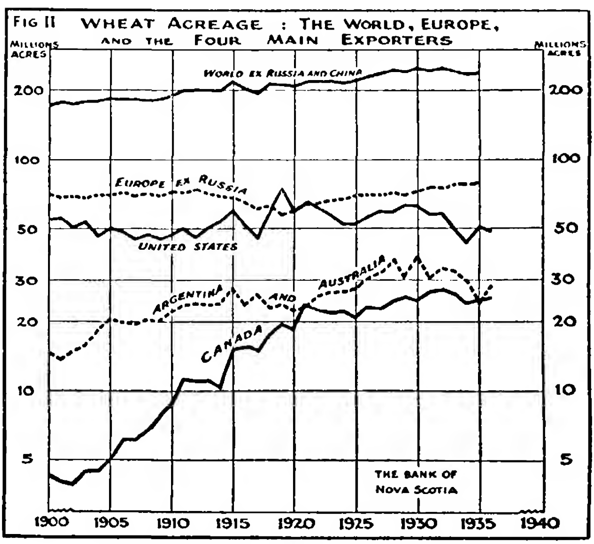
[2] I follow W A Mackintosh, *Economic Problems of the Prairie Provinces* (*Canadian Frontiers of Settlement*, vol iv, Toronto, 1933)

[3] On the heavy costs of clearing in large areas of Australia see S M Wadham and G. L Wood, *Land Utilization in Australia* (Melbourne, 1939), pp 59–77

[4] See, e g, Hancock, *Australia* (Benn, 1930), p 11



(*Monthly Review of the Bank of Nova Scotia*, December, 1937)



(*Monthly Review of the Bank of Nova Scotia*, December, 1937)

of those vast areas of land which by another method were swallowed in prodigious gulps The prairies are too dry and cold to favour subsistence farming, but they are ideal for commercial farming. The method actually employed for subjugating them was dictated by the nature of the Great Commercial Republic as described by Adam Smith. It was part of the widening division of labour among the continents, each concentrating on the tasks it could perform most cheaply and efficiently. Australia was able to offer her wool, the Canadian prairies their wheat, industrial Europe was willing to send capital and labour to produce these commodities, provided she satisfied herself that the margin between costs and prices would show a profit. 'Plenty of cheap land' as contrasted with the pressure of people on the land and food of Europe, plenty of rich virgin land as contrasted with Europe's long battle against soil-exhaustion—these were the primary elements of low cost on the prairies. The progress of transport and of mechanical efficiency in farming contributed the two other most important elements of low cost To price, the ultimately regulating factor, the men working on the prairies could make little or no contribution, unless it were the contribution which sometimes they made perforce in evil times, when despair or bankruptcy checked their productive energy. Price was determined by the higgling of the world market, the relation of demand to supply It was the demand of industrial Europe, with its increasing populations and its rising *per capita* consumption of wheat, which had the last word in determining the fortunes of men on the prairies.

The interaction of these economic forces can be plainly traced in the successive periods of prairie history. In mechanical efficiency there was from the beginning uninterrupted progress. The United States had already far out-distanced Europe in the individual productive power of the persons engaged in agriculture, Canada borrowed and improved upon the experience of the United States.[1]

[1] The following table (Mackintosh, op cit, p. 117) indicates the progress in mechanical efficiency since 1901

Year	*Area of occupied land per person engaged in agriculture*	*Area of improved land per person engaged in agriculture*	*Area of field crops per person engaged in agriculture*
1901	184	67	43
1911	203	81	62
1916	216	101	72
1921	234	119	86
1926	215	119	85
1931	247	145	

The value of machinery per person engaged in agriculture was $217 in 1900, $386

In the cost of transport, both by rail and on the ocean, there was from the eighteen-eighties a progressive and sensational fall. In 1874 it cost about 20 cents to ship a bushel of wheat from Montreal to Liverpool, in 1928 it cost 7 or 8 cents. Yet until 1896 progress on the prairies was still lagging. That was because a downward trend of prices accompanied the downward trend of costs. When after 1896 prices turned upwards, all the separate factors operated together to produce a sensational expansion The prairies were now in step with the world. Throughout the whole period 1890–1914 the average annual increase of the world's wheat production was 50 million bushels; the increase during the five years prior to the war of 1914–18 amounted to 600 million bushels. Economic theory applauded, and the economic policy of governments made little effort to restrict, the supplies which flowed into Europe from Russia and overseas countries. Agriculture in western Europe was adapting itself to the new order by a change-over to live-stock farming, governments understood that the prairies must pay their debts and buy their manufactures with wheat, workmen and employers were at one in desiring a cheap loaf Population and living standards were both increasing rapidly, and expanding supply never pressed so heavily upon demand as to cause a sag in price. These were the years of happy prosperity in which the prairie people learned to say 'It's as good as the wheat'

They were able to go on saying it, with only fleeting twinges of misgiving, for another twenty years The War caused a heavy curtailing of wheat acreage in Europe and led to the elimination of Russia as an exporter, prices soared, the patriotic motive reinforced the profit motive, and the Canadian West almost doubled its acreage [1] In the early nineteen-twenties a sharp recovery in European acreage caused a steep decline of price and resultant consternation on the prairies, but in 1924 production became profitable again and the work of expansion recommenced with renewed vigour. It went too fast in Canada and in other countries. By 1929 it had become plain that supply was outstripping demand. After 1929 there occurred a drastic contraction of demand. During 1932 wheat prices

in 1910, $914 in 1920, $804 in 1930 The 1920 figure reflects the abnormal wartime expansion in acreage and shortage of labour.

[1] *Prairie Wheat Acreage*

1914	9 3 millions	1917 .	13 6 millions
1915 .	13 9 ,,	1918 .	16 1 ,,
1916	14 4 ,,	1919	17 8 ,,

In the same period the acreage for the whole of Canada increased from about 10 1 to 19 7 millions.

fell within a few months more than changes in the value of money had raised them during the previous three centuries On 16th December 1932 they reached the lowest level recorded since Queen Elizabeth's day.[1]

Then, from 1933 to 1936, the prairies were afflicted by drought. Their misfortunes were a boon to wheat-growers elsewhere, short supply produced in due time a precarious recovery of price. But in Europe supply was increasing. Agricultural protectionism was Europe's answer to North America's restrictions upon immigration. For reasons of social policy, financial defence, and military security Germany, Italy, and France were segregating themselves from the world trade in wheat They were ready if necessary to pay a dollar a bushel dearer for grain of their own growing. Before the depression world shipments of wheat averaged 800 million bushels, from 1932 to 1936 they averaged 534 million bushels European imports were down by 240 million bushels, a figure corresponding roughly to the suspended demand of the three large continental importers. At the same time it became generally known that population increase in Western Europe was slackening towards the still point, and that the consumption of wheat per head of the population was falling Old markets were disappearing before new markets were ready to take their place On the prairies men could no longer exclaim, 'It's as good as the wheat.' The questions they now had to ask themselves were How much of their wheat acreage would they be compelled to sacrifice? What would they put in its place? How many of their debts would they be able to pay? And the government of the Dominion had to ask itself disturbing questions It had to reckon with a disturbance of Canada's economic foundations, a twisting of the axis on which Canadian nationhood had been built The north-south axis linking Canada to the United States was now becoming the predominant element in the Dominion's economic strength The most vigorous thrust of the economic frontier was now the northward thrust into the Laurentian Shield—a forbidding land, but one which was rich in minerals, forest products, and power-generating waters. Yet the east-west axis still remained an indispensable element in Canada's historically constituted nationality and economic structure [2] Its assets in capital equipment and population must be defended. How much

[1] On 14th July 1939 this record was beaten.

[2] Innis, op cit, p 11 'For the whole of Canada, wheat, in terms of population, is almost three times as important as it is in the exporting countries of Argentine and Australia, and six times as important as it is in the United States.' In exceptional years (e g 1918 and 1919) Canada's export of wheat was more than half the world export, in the nineteen-thirties it was normally above a third of world export

salvage work would the Dominion government have to do? How long would it have to continue doing it? How much would the prosperous and grudging provinces of Ontario and Quebec allow it to do?

The prairies had fallen upon evil days. It would have seemed absurd, during the nineteen-thirties, to initiate a solemn inquiry into their capacity to absorb immigration. But what was their capacity to absorb immigration during the days when all good things were 'as good as the wheat'? The question should perhaps be stated less provincially what was the Dominion's capacity to absorb immigration during the years when the wheat was 'good and young men were being urged to seek their fortunes in the West? It is obvious that immigration into the prairie provinces has been a factor in their population growth, nobody is likely to argue that all their present inhabitants are descendants of the 12,500 people who were living near the Red River in 1870. It is also obvious that a great deal of the population increase which the economy of the wheat-fields has supported has occurred elsewhere than amidst the wheat-fields. Much of it has occurred in the cities, including the cities of other provinces The process of adjusting costs to prices, it has already been shown, has increased the value of machinery employed by the individual farm-worker and has reduced the density of the farming population.[1] A very great deal of the labour necessary for producing prairie wheat has taken place in research laboratories, implement-making factories, oil depots, and commercial houses; and in addition there has been the labour associated with transport, grain storage, and marketing; to say nothing of the labour employed in producing the necessities and luxuries which express the wheat-farmer's standard of living. Canadian policy therefore erred when it sought to ear-mark immigration for work upon farms which were progressively reducing their demands for labour,[2] and the immigrants who did *not* go West probably showed sound judgement Between 1919 and 1929 146,000 British immigrants announced that the agricultural West was their destination, but the British-born of the prairies increased during that period by only 3,000 [3]

Let us not therefore look in any particular section of Canada for the increase by immigration associated with the giant strides which

[1] The *reduction of rural density is not merely, nor always, a reduction of the farming* population, it may mean the elimination of the village wheelwright, storekeeper, hotel-keeper, and similar renderers of services which once were performed locally but now are rendered by the large cities See Coats, op cit, describing County Huron

[2] Canada applied the nomination system only to land workers

[3] L S. Reynolds, *The British Immigrant* (Toronto, 1935), p. 5

the Dominion made westwards, let us look for the increase in the Dominion as a whole. At the last census, the population of Canada was 10,376,786, of whom 77·8 per cent. had been born in Canada; the remaining 22·2 per cent. had been born in other countries. Great Britain had contributed 723,864, the United States 344,374, to the total of 2,307,525 living persons of immigrant origin But at the same time there were on the soil of the United States 1,278,421 persons of Canadian origin The whole assumption of population-increase by migration is laid open to question so soon as the loss by emigration is studied. Has Canada been able, even in her most bustling days, to absorb both her own children and the strangers whom she has welcomed within her gates? The movement of her own children into the United States has at times reached colossal figures, the net loss in the eighteen-eighties was 339,285, in the eighteen-nineties it was 301,884. In the nineteen-tens it was only 65,620, but in the last census decade it rose again to 281,636. The chief statistician of the Dominion has calculated and moralized as follows. 'If we count all of Canadian stock, perhaps a third of us are south of the line, whilst certainly not more than one per cent of the Americans are north. . . . Now, when a millionaire drops a dollar bill it is no great matter, but when an ordinary man drops not only a "five" but a roll of them, he lights a candle and sweeps the house.' The same writer, after an acute analysis of the distribution and character of this emigration, concludes that it has been occasioned more by 'pushing' than by 'pulling', that 'the *vis a tergo* of economic pressure' has been the most powerful cause of it He has suggested elsewhere that immigration itself is one of the elements of this expulsive pressure, he has emphasized 'the pregnant fact that a big exodus of the Canadian-born comes after, rather than before, a big immigration movement'.[1] As for the immigrants, many of them are merely labourers on loan to Canada; about one in three 'stay put'. The analysis is surely a sobering one. Canada's increase by immigration is beginning to look like an optical illusion. This in fact is the conclusion of the British experts who reported in 1932.

> 'It is far more difficult', they wrote, 'to judge the population requirements of Canada than those of other Dominions, as, owing to the complications introduced by continental migration movements, between 1871 and 1901 the total increment of the population was less than the total natural increase This means that not only was the whole of the net overseas immigration lost to Canada by continental emigration from

[1] R H Coats in *Canadian Journal of Economics and Political Science*, August 1936, p. 280

Canada into the United States but also part of the natural increase. Since the war, the position has reverted to that obtaining before 1900, the total increment each year having been less than the natural increase.'[1]

Some people may go so far as to say (Francis Walker said it fifty years ago of the United States) that the Canadian population would have been larger if there had been no immigration This argument implies the proposition that immigrants have actually displaced a greater number of Canadians who would otherwise have made a living in Canada. It is a proposition which can hardly be proved There is also a kind of doctrinaire wrong-headedness about it Could the railways have been built without immigrant labour? Is it likely that Canada's population would have grown to its present size without the transport and other equipment on which her modern economic system is based? All the same, one thing is clear. For the past half-century—a half-century comprising not merely the great prairie expansion but also a quickening industrial development and a vigorous northward advance of the mining frontier—Canada's 'absorptive capacity', if the term is used as it is commonly used in migration discussions, has been a minus quantity. It is of course quite obvious that a great number of immigrants have remained in the country; but it is at the same time only too true that a greater number of emigrants have left it.

One of the things which immigration has certainly achieved is a *modification of Canada's racial and cultural composition.* This is a subject too large to be pursued here, but two facts may be noted. One is the racially cosmopolitan character of the prairies, where from 1880 onwards settlers of English speech and predominantly British stock failed for the first time in the nineteenth century to take the lead in opening up the virgin lands of the North American continent The other fact is the racial and cultural homogeneity of French Canada, its superior natural increase and its persistent methodical expansion. In 1763 there were 65,000 French-Canadians, in 1881 there were a million and a quarter of them. In the next half century they added more than a million and a half to this number. In 1931 they numbered 2,927,460. And all this without the aid of immigration! They had on the contrary spilled over generously into the United States. Since 1930 that outlet has been blocked. What will their future be? They have for many years been advancing persistently into the once English-speaking eastern borders of Ontario. Their national and religious leaders are inspiring them to a courageous pioneering thrust northwards into the forbidding Shield. But at the

[1] Cmd. 4075 of 1932, para. 44.

same time they are becoming of necessity and with speed a predominantly urban people. The necessities of a new way of life may bar their way to that complete biological and cultural reversal of the eighteenth-century conquest which has been the dream of some of their more ambitious and romantic spirits. But the present tendency, if it continues, means that the Canadians of British stock, giving ground both in the west and in the east, are bound some day to take second place, so far as numbers are concerned, within the Dominion [1]

The demographic problem must, however, be postponed a little longer, there still remains something to be said about absorptive capacity in other Dominions. The experience of Canada is illuminating and in many respects typical, but in one important regard it is unique. No other Dominion has such a neighbour as the United States of America In some degree the small island of Tasmania, a State within the Commonwealth of Australia, stands in relation to the neighbouring continental mass as Canada stands in relation to the United States Tasmania has persistently lost population to the mainland not only by her failure to hold sufficient immigrants, but by a drain on her own natural increase. But this must be reckoned an internal migratory movement, the absorptive capacity of the Commonwealth of Australia has been normally a *plus* quantity. The same has been true of New Zealand. Until a quite recent period, the rate of population increase in these two countries was perhaps as high as that of any other country in the world [2] Yet Australia at least was continually being reproached, by outsiders and by her own impatient patriots, for failing to fill her vast open spaces. These preaching publicists did not know what the vast open spaces were like. They ought to know now, the geographers have told them often enough. It is silly to add up the number of Australia's square miles without giving any attention to the fact that more than half of them are arid, at the best sparse pastoral country, at the worst a howling desert. It is mischievous to keep on pretending that any people have ever founded thriving settlements or could ever found them in a land so inhospitable as Central Australia A recent authoritative study has stated with severe respect for fact and an unfailing mastery of its details the essential truth about land utilization in Australia With expert thoroughness the authors examine

[1] See F Scott, *Canada To-day* (Canadian Institute of International Affairs, 1938), p 26 On present trends the French-Canadians would, it is calculated, take first place in 1971 If all races are considered, Canadians of British origin are already in a minority

[2] For the situation as commonly viewed at the end of the nineteen-twenties see Hancock, *Australia*, p 146

the conditions of climate and soil, of scientific knowledge and technique, which have fixed the geographical limits of Australia's several rural industries. 'Whatever the standard of living accepted by the inhabitants', they conclude, 'four-fifths of the country could not be settled much more densely because of rainfall deficiency or other factors. When the proportion of barren upland is deducted from the remaining 20 per cent. which is *climatically* suitable for more intensive development, the disparity between people and land takes on an altogether different complexion.'[1] It is not denied that within the occupied frontiers of settlement a great deal of mopping up and consolidation of ground still remains to be done. It is plain that a more intensive use of much loosely held or half-improved land would increase its capacity to contribute more plentifully to the means of life. Of whose life? The life of a locally rooted peasant community, or the life of the hundreds of millions of under nourished people who painfully exist in the modern world? The Australians would not have achieved a fraction of their astonishing success in making their difficult country productive, if their efforts had been controlled by the peasant ideal. From the beginning of the nineteenth century until recent times, their efforts have been controlled by the ideal of the Great Commercial Republic A world which had use for new supplies of wool and wheat and metals was willing to equip Australia with the means of producing them. It was European investment which enabled the Australians and Canadians and Argentinians to master their new countries so quickly, it was the prospect of profitable markets which induced investment Has that prospect now disappeared? Australian producers have the capacity and the will to continue the work of subjugating the remaining strongholds of unproductive wilderness and of adding to the richness of their pastures and ploughlands But each individual grazier and farmer is compelled to count the cost. He cannot set himself to the work if by doing so he will lose his living. If Europe with its smaller families and autarkies and neglected poor has decided to reduce its demands on the outer world for the means of life and work, if Asia is unable to make her human demands economically effective, Australia, like other countries similarly situated, will have to think out new methods of achieving her work in the world. She may have to seek an increased density of rural population at a lower standard of living, rather than a maximum rural productivity contributing to the living standards of other peoples no less than her own.

[1] Wadham and Wood, *Land Utilization in Australia*, p 323 The argument about the irrelevance of mere size applies equally to Canada

She has not as yet faced this possibility. Rather has she hastened her efforts to achieve a more even balance between rural and urban production The prospect of closing markets has speeded up a process which the technical progress of agriculture had already initiated—the process of increasing the numerical preponderance of city workers.[1] It was not in the country, but in the cities that Australia, during the period under review, demonstrated her capacity to absorb new producers. During the nineteen-twenties, while the British and Australian governments were spending vast enthusiasm and large sums of money in pursuing the objective of rural settlement, economic forces were working persistently in the contrary direction In the nineteen-thirties the governments confessed that they had been pursuing a mirage. They still clung to their ideal of redistributing the white population of the Empire, but they agreed that Australia's chief contribution of living-space must for the present be made by the industries of her cities

Let us assume that Australia's capacity to absorb immigration, whether in the country or in the city, is ample Can Great Britain supply the immigrants? The inter-departmental committee which reported in 1934 saw 'no limits' to her capacity to do so.[2] This was surprising. As early as 1917 the Dominions Royal Commission had expressed very serious doubts about Great Britain's future as an emigration country [3] Those doubts had been forgotten during the nineteen-twenties; but the expert committee of 1932 had done more than revive them, it had declared flatly that Great Britain's capacity to give to the Dominions of her own flesh and blood was rapidly disappearing. Since then, a band of specialist workers has convinced students and a great part of the public that this conclusion is true. Let us rapidly examine the situation as an Australian investigator sees it [4]

[1] In 1913-14 Australia had 210,000 males employed in agriculture In 1934-5, with more acres under cultivation and an increased yield per acre, she had 193,000 males so employed In New Zealand, a committee on unemployment set up in 1929 found that in the four years 1923-4 to 1927-8 production per acre had increased by 24 13 per cent, while the number of persons employed per 1,000 acres had decreased by 4 2 per cent

[2] Cmd 1689 of 1935, para 198.

[3] See p 129 above

[4] In the succeeding paragraphs I follow the analysis of Mr W. D. Forsyth, to whom I am particularly grateful for permitting me to use his excellent work in advance of its publication The specialist students who have played the greatest part in educating Great Britain on this problem are Professor Carr-Saunders (see *World Population*, Oxford University Press, 1936), Dr. Enid Charles (see, e g, Memorandum No 55 of the *Royal Economic Society*), and Mr R. R. Kuczynski (see, e g., *Economica*, May 1935, and *Sociological Review*, July 1937)

The experience of the past century suggests that there is a close connexion between rates of natural increase and movements of emigration. It is the countries with a rising rate of increase which have exported populations, a fall in the rate has regularly preceded a dwindling of migration [1] Between 1871 and 1931, although the population of Great Britain increased from about 26 millions to about 43 millions, the average annual gain per cent. declined from 1·39 to 0·40. Throughout the whole period, emigration was the least important factor in determining the net annual variation of population, in the latter part of the period the birth-rate fell more rapidly than the death-rate. By the year 1938 it was estimated to have fallen 23 per cent. below replacement rate.[2] Great Britain was already on the eve of a new period of 'natural decrease'. On general grounds it would seem that England, during the coming half-century, was likely to be no more an emigrant-exporting country than France had been during the past half-century.

But the problem can be examined more exactly Closely connected with a people's rate of natural increase (or decrease) is its age composition. A high rate of natural increase produces a larger proportion of young people in the total population; a low rate of natural increase has the opposite effect What is the position of those age-groups of the British population which have been in the past the chief suppliers of migrants? The Australian investigator has concentrated his attention upon four distinct groups below the age of 46 Both before the War and after it, these four groups together supplied the vast majority of migrants—about nine-tenths of the men and seven-eighths of the women

The first group to be considered comprises the men and women of 18–30. This group was in the past the most important of all, it supplied two-fifths of the migrating men and a third of the women. Can it still be regarded as a reservoir from which the Dominions may draw people? It contains at present, and will for some time still contain, more people than were in it during the nineteen-twenties.[3] But as its members move onwards through their twenties towards the upper

[1] The Danish student Ravnholt has detected a regular time-interval of about twenty years in the operation of these sequences of cause and effect

[2] Cmd 5766 of 1938, para 6 By the estimate accepted by the committee, the birth-rate equal to a full replacement rate was 19½ per 1,000 the actual rate for England and Wales in the year 1933 was 14 4 For Germany (where it has since risen, but not yet to replacement level) it was in the same year 14 7, for Norway 14 9, for France 16 3, for Holland 20 8, for Italy 23 7 The apparently simple concept, a birth-rate equal to a full replacement rate, requires a good deal of elaboration.

[3] The mean size of the group in that period was just over 4,000,000 Its size will be greater than that until about 1950, when a rapid shrinking must begin.

limit of the group, their places are to a decreasing extent taken by juniors entering the group at its lower limit. The insufficiency of new entrants first showed itself definitely in the year 1931 The continuance of this insufficiency for a considerable period can be predicted with complete certainty.[1] In the past eighteen years there have been too few babies born to supply the quota of entrants necessary for maintaining the numerical strength of the group. An absolute shrinking is now only a question of time A revival of fertility, even if it occurred immediately, could make no immediate difference to the prospects of the group, for after all it takes a new-born child eighteen years to reach the age of eighteen 'This important section of the reservoir of migrants is drying up, because the men who might have kept it replenished have never been born ' No more have the women been born.

The second group to be considered comprises the men and women of 31–45. In the past, this group, although less important than the preceding one, made a useful contribution of people to the Dominions: from it were drawn about a quarter of Great Britain's female emigrants and about a fifth of the males If mere numbers were considered apart from the conditions which determine behaviour, there would appear to be no reason why the Dominions should not continue to draw people from this group. It is now considerably larger than it was in the nineteen-twenties, and until the middle nineteen-forties it will be adequately replenished by new entrants.

There remain for consideration two other groups, the juveniles of 11–18 and the children of 0–11 The composition of the former group can be forecast with certainty only for a period of eleven years ahead, the prospects are that by 1950 it will be only three-quarters of its size in 1935. The number of new entrants to this group has already suffered drastic curtailment The future of the child group is less predictable. An increase or decrease in the birth-rate would have an immediate effect upon the destiny of this group. But the expert students of population are quite unable to say with certainty which will happen. Most of them advance strong reasons for anticipating a further decrease. 'Uncertain, but woefully likely, is the continuance of declining fertility.'

This, then, is the state of the principal compartments of that reservoir from which the Dominions have in the past drawn the

[1] This complete certainty, arising from the fact that the birth factor cannot be altered since the relevant births have already occurred, depends on the assumption that there is no sensational immigration of juveniles into Great Britain The death-rate has over a long period been behaving in a manner sufficiently regular to justify the general prediction

greater part of their immigrant settlers. Is it likely that they will be able in the future to draw largely from the same reservoir? In answering this question, it will be as well to consider two distinct points of view, that of individual motive, and that of the public interest.

It will be recalled that most of the official persons who reviewed the problem of migration between the years 1932 and 1938 laid the greatest stress upon individual motive The inter-departmental committee of 1934 looked forward to a resumption of migration on the old scale by reason of the operation of the old motives—motives which were 'individualistic, and therefore congenial to our national bent'.[1] The same committee asserted that these motives operated 'as a process of pulling, not pushing' Yet it is doubtful whether the process of pushing can be altogether ruled out. It might conceivably operate through catastrophe A complete and sudden collapse of international exchange would turn Great Britain into an over-populated country[2] The destruction of London by air bombing or the institution of concentration camps for liberals and socialists would doubtless be pushes of quite satisfactory intensity Pushes of a more matter-of-fact kind have constantly been operative in the past, Cecil Rhodes once said that he left England because he could not abide the interminable cold mutton Many experts, perhaps the majority of them, are convinced that a rapid rate of natural increase tends by itself to operate as a push of considerable effectiveness, by creating pressure upon the opportunities of employment and upon the standard of living This particular push, at any rate, can no longer be counted upon It is true that an effect of the opposite kind cannot with certainty be predicted from the operation of 'natural decrease' The probable economic effects of a decline in population have not as yet been sufficiently studied,[3] it is not inconceivable that a downward movement may be associated with unemployment Yet the probability would surely seem to be that the notice, 'Boy Wanted', will appear more frequently in the windows of English shops and factories and offices. To return to our age groups, it seems unlikely that many individuals in the three groups under thirty will be the

[1] See p 155 above

[2] Warren Thompson in *Population Problems* (New York, 1935) and Sir William Beveridge in *Unemployment* (London, 1930) discuss the economic factors which might cause a serious fall in the standard of living and therefore tend to cause emigration to countries where expansion is going on, notwithstanding the decline in the home population.

[3] Since the above was written Mr W B Reddaway's book, *Economics of a Declining Population*, has appeared (Allen & Unwin, 1939).

victims of much spontaneous and energetic pushing-out by the economy and society of Great Britain.[1] The economy may for a time continue to exercise pressure against the less important group of the over-thirties. But the society, acting through its legislature and government, has already taken steps to mitigate the rigour of the economy's expulsive urge. Social insurance and sanitation in slums have done much to temper those fears and sufferings which contributed not a little to the 'migration-mindedness' of an earlier age.

A falling birth-rate reduces the pull of overseas countries as well as the push from home A country in which large families are the rule demands plenty of the subsistence goods—bread, meat, and the like—which are most readily produced in prairies and savannahs, but a country in which small families are the rule demands proportionately fewer subsistence goods and proportionately more comfort goods.[2] In producing comfort goods, the older and more thickly populated lands have the advantage over the newer and emptier ones, the stream of migration therefore tends to flow back to the places where the greater opportunity exists

The individual search for opportunity as a factor in migration has never been better expressed than by Hardy's eager young Scot in the *Mayor of Casterbridge*.

> '"I've sent on my luggage—though it isn't much, for the voyage is long" Donald's eyes dropped into a remote gaze as he added "But I said to myself, Never a one of the prizes of life will I come by unless I undertake it And I decided to go."'

What the prizes now are in the Dominions has been by implication discussed in the preceding inquiry into their absorptive capacity. Doubtless, in their more mobile and malleable societies, there are rich prizes still for individuals of outstanding initiative and intelligence, and their expanding industries and growing cities may offer still to more ordinary men solid prizes of decency and comfort. But these are precisely the prizes for which men and women are hoping in Great Britain. The differences of kind and of degree between opportunities in Great Britain and the Dominions are not what they used to be. The contrast between hard times at home and great expectations abroad is not what it used to be Was the Oversea Settlement Board right in assuming that the decline in 'migration mindedness' was merely a temporary phenomenon? Admittedly, short-term fluctuations often look like long-term trends, when one

[1] Ireland is a different story

[2] The economist may translate this homely language into his concepts of primary, secondary, and tertiary production.

is in the middle of them. Admittedly, everything might seem different in the aftermath of a great war. Yet in the nineteen-thirties, with its alternations of bad times and good, the masses of British people remained constant in their assumption that the chapter of imperial migration was closed.

Moreover, the question of individual inducement was not the only one, there was the question of public interest The Oversea Settlement Board reported in 1938 that restrictions upon emigration would be 'at this stage' undesirable.[1] The qualification was significant; it suggested that a full-blooded revival of mercantilist prohibitions might occur even in Great Britain, as it had occurred in Italy. That, no doubt, was a distant possibility. In 1937 Parliament renewed the operation of the Empire Settlement Act until the year 1942 It did not, however, commit Great Britain to an active emigration policy during that period, it merely authorized the Secretary of State to spend up to £1,500,000 a year in co-operation with the Dominions, should he judge it advisable to do so. The theory was still held that migration was in the joint public interest of Great Britain and the Dominions; but it would be simple for Great Britain—following the recent example of the Dominions—to suspend her contribution should she become convinced that it was contrary to her own interest. Was it not probable that a study of the problem in the light of the British age-groups, once it was undertaken, would lead to that conclusion? Was it likely that Great Britain would positively assist the departure of young men between the ages of 18 and 30, the most virile group for labour and defence? Was it likely that she would pay money to deplete herself of the children and young people who even now were insufficient for the replenishment of this key group? Was it likely, when there was a growing insufficiency not only of children but also of potential mothers, that she would subsidize the departure of women of child-bearing age? She might still think it worth while to assist emigration from the 30–45 age-group, particularly the emigration of persons who had arrived at the shadier end of it. But these were the persons—nearing the end of their prime, less adaptable, less strenuous—whom the Dominions were little interested in receiving . . . Unless, indeed, they brought their children with them.

For the Dominions also were becoming short of children In New Zealand, the net reproduction rate was calculated to have been in 1911–15 1·35 but in 1936 only 0·967. The New Zealanders were no longer breeding at a rate sufficient to replace themselves in the future.

[1] Cmd. 5766 of 1938, para 51

In 1936 their country contained 16,000 fewer children under ten than it had contained ten years previously, despite the fact that the total population had in the same period increased by 146,000. The same sort of thing was happening in Australia. Diagrams of the age-groups of the Australian people, as they would soon be, were beginning to look rather like the map of their continent—a contracted base of the young, a wide latitudinal spread in the centre to indicate the middle-aged, and at the top the inevitable contraction through old age towards the vanishing point of death. If the diagrams appropriate to South Africa and Canada still rested on a broad base of children and vigorous youth, this was due to the continuing fertility of the Africaners and the French. The British stock of these two Dominions, like the British stock in Australia and New Zealand, was becoming short of children. Once again we may observe a narrowing of the gap between the condition of the parent society in Great Britain and that of the daughter societies overseas. There had been a time when overseas people of British stock, with some degree of unconscious demographic accuracy as well as with a touching sentiment, had contrasted the crude and busy pioneering which was making their 'new' countries with the tranquil maturity of 'the old country' where they or their fathers had been born. But soon, if present demographic trends continued, Great Britain and the Dominions would all be growing 'old' together. Kinship and affection might then express themselves in a more appropriate phrase. There would be the old folk at home, and the old folk in the Dominions.

It would therefore appear that there had been a lack of proportion in the ardent and industrious migration discussions of the period 1918–38 The 'redistribution of the white population of the Empire' was not the central problem It was the reproduction of the white—or at any rate the British—population of the Empire which was the real problem, both in Great Britain and in the Dominions

The Oversea Settlement Board rightly pointed out that this population problem had an important international aspect. It believed that the pushes and pulls of the past century could hardly operate much longer in transferring men and women from Great Britain to the Dominions. But other peoples, some of them inside the Empire and some of them outside it, were feeling real pushes and at least imagining real pulls. To poor and crowded peoples, the high standards of living in the Dominions, and their emptiness (whether rightly understood or not) were likely to become increasingly an object of envy.[1] It was not the peoples of north-western Europe who

[1] 'Population moves, not necessarily from an area of dense population to an area

had reason to hanker after living-space in the temperate regions of the British Commonwealth. Neither Great Britain nor France, nor the Scandinavian countries, nor Germany—not even Nazi Germany—could boast of a replacement birth-rate [1] In southern and eastern Europe the situation was different· Poles and Rumanians and Greeks might reasonably have claimed more land for their people. But it was the situation of Asia to which the Dominions, with realistic judgement had always given most of their attention. The two Dominions of the southern Pacific had long since judged it expedient to raise barriers against their Asiatic neighbours. Had they been willing to admit more goods from some of the countries whose men they excluded, they might have gone far to soften the rigours of the exclusion. But the maintenance of the barriers depended ultimately upon the distribution of armed power. Thus the migration problem became one not only of economics and demography, but of defence. The Dominions were beginning to find themselves in a dilemma On the one hand they were learning that they must look beyond Great Britain for necessary defensive reinforcements to their population , on the other hand, they feared that these foreign reinforcements might impair 'the integrity of the group' and the unity of will necessary for its defence. Therefore, not without misgiving, they began to drift towards a middle course of action. that of picking and choosing the few foreigners to whom they were ready to offer a mistrustful hospitality.[2]

II

'Money'

Both at the Imperial Economic Conference of 1923 and at the Imperial Economic Conference of 1932 there was considerable discussion about 'money', yet the discussion on these two different occasions was about two different things. In 1923 the minds of statesmen were not busy with theories of currency and credit; the traditional expositions of these mysteries were still generally accepted

of thin population, but from an area of low standard of living to an area of high standard of living' (Carl Alsberg, 'Standards of Living as a Factor in International Relations', *International Affairs*, November–December 1937, pp 920 ff.)

[1] See Wadham and Wood, op cit , p 340, for table of comparative gross and net reproduction rates, quoted from *Population Index*, April 1938, pp 127–9.

[2] *J P E* , vol xviii, p 870. Speech of the Hon J. Paterson, Minister of the Interior in the Commonwealth of Australia, 25th August 1937 There were, however, signs that an increasing number of Australians, including labour leaders, were beginning to consider the question of Indian immigration an object of discussion See H V. Hodson's ed. *The British Commonwealth and the Future* (1939), pp. 154–6.

without question The 'money' about which Mr. Bruce waxed eloquent in 1923 was the commodity known to the 'money market', that is to say, capital for investment. He propounded an ambitious linking together of planned investment and planned migration. In 1932 it was different. Migration had come to a standstill, and investment had become a sore subject. In order to pay interest upon a given amount of investment, Australia in 1932 had to export twice the amount of butter or three times the amount of wool which had sufficed a few years earlier. Mr. Bruce had planned to borrow 'money' in order to develop country in order to absorb settlers in order to produce exports which would sell at a profit more than sufficient to cover the whole transaction; but the exports were selling at a loss. It was the collapse of prices which had done most to upset the rosy calculations of 1923 [1] In 1932, therefore, Mr Bruce and all the other Dominion statesmen were concerned with the relationship between money and price. They had been taught of old that money was the measure of price, but they had now become convinced that it was also a determinant of price It was the minted and printed money issued by governments, and the signed documents which banks accept as money, which now obsessed them. The 'money' of which they talked at Ottawa meant currency and credit

So there emerge for consideration two subjects, the policies of investment and the policies of currency and credit. The subjects are distinct but related. Both of them are highly technical. This chapter can do no more than narrate a few simple and outstanding changes The reader must be on his guard against oversimplification · a non-technical narrative can hardly avoid it.

The linking together in 1923 of migration, investment and marketing—if only the statesmen had done it in a less fragmentary fashion—was sound. History itself in each of the Dominions had linked these three processes together. Early in the nineteenth century the wide lands of the Dominions had been potentially, but not actually, rich. Without capital and labour to develop them, their natural resources were useless It was the function of profitable export crops to attract this capital and labour. Price was the dynamic. Profitable prices stimulated the investment which gave these countries their productive equipment and stimulated the migration which redressed their shortage of people But the migration did not furnish them with

[1] But the collapse of prices, though the chief, was not the only cause ' . . It would not have required a very severe recession in the outside world to initiate a major decline in Australia ' See Alan G B Fisher in *Journal of Political Economy*, December 1934, p 755.

populations capable of consuming more than a small proportion of the staples which modern productive efficiency extracted from their extensive natural resources. Their economies therefore remained geared to export. So long as profitable prices sustained the export trade, their development could continue by means of the familiar processes. Let these processes keep moving, the statesmen had said in 1923, let them move more rapidly, but let them move under planned guidance. Unfortunately, the statesmen had only a fragmentary understanding of the processes which they hoped to accelerate and guide. They declaimed about migration without having studied the trends of population The markets which they talked about were merely protected markets for a part, and usually the smaller part, of their total production for export. The 'money' which they hoped to secure in an exact ratio to the 'men' whom they hoped to attract turned out to be the most insignificant fraction of their total borrowings From 1925 to 1932, the period during which the much advertised £34,000,000 agreement between Australia and the United Kingdom was in operation, Australia spent only about a sixth of the cheap money which the Agreement made available to her. Within the same period, the governments of the Australian Commonwealth and States increased the public debt by ordinary borrowing to the tune of £217,690,000 It was in their ideas of quantity and proportion that the men of 1923 went most astray They were just as right and just as wrong as a cook who should set out to make a pudding with all the wrong quantities of all the right ingredients.

The study of investment, therefore, must not be tied to the study of migration The study can be approached by asking two leading questions What have been the fortunes of Great Britain's 'empire of investment' since the War? What has been the evolution of the Dominions within this 'empire of investment'? Broadly speaking, the answer to these questions will reveal the rapid substitution of a pluralistic order of things for the old monistic order which even before the War had begun to pass away. From the London end there will be apparent a decline of activity in overseas lending, and perhaps an ultimate shrinking of the total sum of capital invested abroad, there will also be apparent a geographical contraction of the investment frontier towards (but by no means wholly within) the political frontier of the British Empire. Rival financial centres (but this is not altogether a new story) tend in greater or less degree to occupy the areas from which London has retreated. Thus the abnormal monistic order of the nineteenth century becomes attenuated. The same tendencies can be seen operating at the overseas end. Although the

Dominions have come to mean proportionately more to the *rentiers* of Great Britain, they have begun to emancipate themselves from their dependence upon British capital Some of them—notably Canada—have turned to other sources of financial power for the capital which they desire to import. All of them—but Canada is again the outstanding example—have made marked progress in their capacity to provide by their own savings for their own development. Their rapid approach towards an economic and financial coming-of-age will reveal itself in changes, not only of their borrowing policies, but of their currency and banking policies.

Seen from the lender's point of view, investment exists in order to produce income. According to Sir Robert Kindersley's calculations,[1] Great Britain's foreign investments yielded in 1929 an income of £231,000,000, in 1933 an income of £150,000,000, and in 1936 an income of £184,000,000. The figures of these three years reflect respectively conditions of boom, slump, and recovery But setting aside the variations in it, what did the income from foreign investment signify to the people of Great Britain? According to Marxist criticism, it represented the surplus value wrung from the proletariat by an exploiting *bourgeoisie*. Some radical economists, and notably Mr J. A. Hobson, laid similar stress on the combination of exploitation at home and exploitation abroad. Mr. Bernard Shaw, in *The Apple Cart*, looked forward with gentle irony to an England whose working masses would employ themselves sufficiently in making chocolates, and depend for everything else on the tribute due to them from their overseas debtors. *The Economist* forecast that the toll which Great Britain's previous investment enabled her to levy on other countries would play an increasingly important part in her economy as her population began to decline. 'The position will then resemble', it said, 'that of a family trust whose beneficiaries are gradually declining in number.'[2] But supposing foreign debtors refused to keep on supporting these rich declining Englishmen? Or supposing Englishmen disliked Mr. Shaw's picture of their future as a nation of chocolate-makers? Or supposing they became convinced that there was something in Mr Hobson's juxtaposition of excessive overseas lending and a neglected home society? Doubts of this nature began to influence even the official guardians of British financial policy.[3] Nevertheless, the annual income which overseas debtors

[1] See Sir Robert Kindersley's indispensable review of Great Britain's investments in the *Economic Journal* in 1929 and each successive year

[2] *The Economist*, 20th November 1937, p 363

[3] The terms of reference for the Foreign Transactions (Advisory) Committee which was appointed in April 1936, and is still functioning, included the following Capital

remitted to a section of the British people had become and must for a considerable period remain a most important factor in the well-being of the whole British nation *The Economist* calculated in 1937 that the income accruing to Great Britain as a result of her past overseas investment amounted to one-twentieth of her total national income; but this calculation, it went on to say, did less than justice to the tangible and net contribution which overseas interest, as an item in the national balance of payments, made to the national welfare 'A truer picture', it declared, 'is given by the statement that something like one quarter of our total imports are delivered to us, *gratis*, by foreign or Empire countries as a tribute on the capital we have lent them.' If Great Britain had to reckon with a shrinking of that tribute, her position would become a very difficult one. 'The whole structure of British industry', *The Economist* continued, 'is conditioned by the existence of that invisible income, which is a counterpart of our import of raw materials Unless British capital abroad is at least maintained intact, a readjustment of that structure and of the national standard of life must sooner or later become necessary.'[1]

Was British capital abroad being maintained intact? Backward-reaching estimates of changes in the total of British capital invested abroad are exceedingly difficult, because computations for the various years which have to be compared have been made by different investigators on different principles for different purposes. It is only during the last decade that there has been consistency in the method and purpose of computation. Nevertheless, some broad generalizations can be made. Before 1914, as has been seen in an earlier chapter, change signified an acceleration in the rate of investment and a progressive increase of the capital sum.[2] Let us accept the estimate of that sum in 1914 as £3,391,000,000. Then came the War, during which Great Britain lost or sold something approaching £1,000,000,000 of her foreign investments. During the first decade after the War, her investors set rapidly at work to restore the 'little pile' which they had placed overseas.[3] The total in 1929 has been reckoned as £3,414,000,000. But the reckoning for the year 1934

required for development in the United Kingdom should not be restricted by excessive foreign lending. Mr J M. Keynes has argued that a good deal of investment in the Dominions, which was encouraged by the Colonial Stock Act, did not give so good a return as investment at home would have given.

[1] *The Economist*, 20th November 1937, pp 363, 366

[2] See above, pp 23 ff, but notice the distinction between 'primary' and 'secondary' investment, marked roughly by the year 1875.

[3] 'Little pile' comes into my head from Karel Čapek's *Insect Play*

was only £3,434,000,000—an increase of little more than £20,000,000 in five years. *The Economist,* whose estimates have here been followed, considered in 1937 that an annual investment or reinvestment of between £50,000,000 and £60,000,000 was necessary to replace the wastage of British-owned overseas capital through redemptions, repayments, and defaults. It was very doubtful whether this replacement was taking place. Sir Robert Kindersley's calculations also suggested a shrinkage of the total sum, and in addition a deterioration in its general quality [1]

It was the sale of United States securities during the War which explained the loss of average quality, it increased the proportion of potential defaulters among Great Britain's foreign debtors. But British investors since the War had been redressing this tendency by increasing the proportion of securities which they held within the Empire. The external investment of £3,763,000,000 estimated for 1914 had been divided into £1,983,000,000 invested outside the Empire, and £1,780,000,000 invested inside it [2] Sir Robert Kindersley estimated that in 1928 the total British investment in the overseas Empire was £1,918,000,000, whereas the investment in foreign countries had fallen to £1,473,000,000. In 1936 the Empire investment was £1,981,000,000, and the foreign investment had fallen to £1,259,000,000. Empire holdings now counted for 60 per cent of Great Britain's total external investment.

To what extent was this increasing concentration of investment upon the political Empire a product of deliberate policy? Undoubtedly it was in large measure to be explained by the natural economic evolution which had removed the United States from Great Britain's 'empire of investment', and had at the same time brought certain Empire countries increasingly within it. These changes were largely determined, not by the investor's sentimental preferences, but

[1] *The Economist,* 20th November 1937, pp 360 ff. Sir Robert Kindersley in *Economic Journal,* March 1937, gives the following estimates of the difference between British subscriptions to new overseas issues and repayments of British holdings

1929	+£47,000,000	1933	+£16,000,000
1930	+£59,000,000	1934	+£21,000,000
1931	+£14,000,000	1935	−£30,000,000
1932	−£11,000,000	1936	−£46,000,000

The quoted issues do not, however, cover the whole of Great Britain's new foreign investment. It is in particular difficult to obtain statistics of 'direct investment' without the mediation of a security issue, e g by private purchase of plantations, or the overseas assets of commercial companies The sum is agreed to be not less than £500,000,000 'Allowing for this, the total of British capital abroad may be as high as it ever was' (*The Economist,* loc cit)

[2] The figures of Sir George Paish, corrected by Dr Feis (*Europe, The World's Banker,* p 23).

by the stage of development at which the different overseas countries had arrived. In the early nineteenth century foreign investment had begun with loans to European governments. By the end of the century that business was chiefly in the hands of Paris and Berlin, London had found more attractive business across the oceans. South America became popular in the first half of the nineteenth century, and retained its popularity well into the twentieth century. In the mid-nineteenth century British capital was endowing the central and western areas of the United States with their 'permanent outfit'. It was not till later that the British Dominions offered the same opportunities In the nineteen-twenties these opportunities were closing in Canada as they had already closed in the United States; but in other Dominions—and notably Australia—they were still expanding. Australia's immense government borrowings in that decade made her the greatest of Great Britain's debtors

There was, in addition, some conscious direction of investment towards the Empire which was not government direction. 'Generally speaking', Sir Edward Grey had said in 1914, 'these are things with which the Foreign Office does not interfere '[1] Nor was it customary for other departments of the United Kingdom government to interfere. It was not governmental influence, but the influence of the banks and other media such as investment trusts which had traditionally guided the British investor [2] In the decade which followed the War these influences were guiding him increasingly towards places marked red on the map, because these places seemed to offer both financial opportunity and political reliability.

Yet even before the War the British Government had not been completely non-interventionist. The effect, if not the deliberate intention, of the Crown Agents' system was to facilitate the raising of colonial loans in the United Kingdom and to confer upon United Kingdom industry the chief benefits of the loan expenditure. The self-governing parts of the Empire benefited as borrowers by the trustee status conferred upon their bonds by the Colonial Stock Act, 1900. This status was conditional upon the acceptance of certain obligations,[3] and it by no means carried an imperial guarantee, nevertheless, it gave to borrowing Dominion governments a good mark which was not without influence on the investing public. Despite all this, it was not until the Great War that public policy

[1] Quoted Richardson, *British Economic Foreign Policy*, p 8.

[2] See Table of the Media of Investment in *The Economist*, 20th November 1937, p 362

[3] See above, vol i, p 264, n 4

treated overseas investment as a positive interest of a discriminating State. A Treasury decision of 1915 made for the first time in modern British experience a sharp distinction between investment inside and outside the Empire. it placed a complete embargo upon foreign lending, but permitted the floating of important Empire issues. This official ban on foreign lending was not removed until 1919, and until 1925 there remained in being an unofficial censorship of new overseas issues and other transfers of capital. Moreover, holders of certain foreign securities had been subjected, during the War, at first to pressure, and thereafter to direct compulsion to sell or lend them on demand of the government

Only for a short period thereafter did British investors recover their unrestricted liberty of choice, or did the British government relapse into its old attitude of aloof indifference. Governmental interventions during the nineteen-twenties followed simultaneously two distinct tendencies. The Keynesian repentance of narrow political nationalism expressed itself through British participation in the League of Nations loans for European reconstruction. The spirit of economic nationalism which adversity was fostering in it found expression in the Trade Facilities Acts, 1922–7. These acts authorized the Treasury to guarantee the principal and interest of loans whose proceeds were spent directly on the products of United Kingdom industry. The principle that foreign investment should, wherever possible, directly finance British exports remained thereafter in the forefront of official minds it found a place in the list of objectives drawn up for the Foreign Transactions (Advisory) Committee established in 1936. The other objectives by which that committee was instructed to steer its course reveal the direction which British financial policy had been following since the onset of the financial crisis in 1930. Faced with the necessity of redressing the adverse balance of payments, the government, by unofficial co-operation with the City rather than by compulsion, had instituted an 'embargo' on overseas lending. In order to facilitate the conversion operation of the summer of 1932, the Chancellor of the Exchequer requested a suspension of all new capital issues. After the successful completion of the conversion the 'embargo' was relaxed in favour of United Kingdom and British Empire issues. In 1933 there was a special relaxation in favour of a million pound loan to Denmark, the money to be spent in the construction of a bridge by a British firm employing British steel. Here the principle of the Trade Facilities Acts is apparent. There is significance also in the choice of Denmark, a country whose currency was linked with sterling. In April 1934

there was a further relaxation of restrictions on foreign lending, on the principle of favouring purchasers of British exports and members of the 'sterling bloc'. Finally, the monetary agreement of September 1936 between Great Britain, France, and the United States may be regarded as closing the period of emergency currency defence, and enlarging the areas in which British investors might exercise a relative freedom of choice.

The narrative has revealed an increasing governmental concern with the location of British investment. Neither the government nor the investing public would ever again be able or willing to take the whole world as its province. Great Britain's 'empire of investment' had contracted its frontiers. But it had not contracted them so far as to make them coterminous with the frontiers of the political Empire. The proceeds of past foreign lending were still an important economic interest of Great Britain; the government, in its trade agreements with Argentina and other countries showed its special concern for preserving this income. The government also manifested its desire to encourage lending to reliable countries outside the Empire whose currencies were linked with sterling. Nevertheless, the measures which it had taken in emergency revealed the fact that it placed the Empire first. There was a partial contrast between the order of financial preference and the order of commercial preference which was established at Ottawa. Trade policy said: 'Home producer first, Empire producer second, foreign producer third.' But financial policy seemed to say: 'Home and Empire borrowers equal first, sterling-area borrowers second, the rest nowhere.'

But could British capital continue to satisfy the needs even of those countries whom British policy was prepared to favour? Could it even continue to satisfy the needs of the British Empire? These questions raised once more the fundamental question of whether Great Britain would or would not in the future accumulate a substantial annual surplus of savings for investment abroad. The figures of capital movements in the nineteen-thirties, it has been seen, gave an answer which, though not decisive, was certainly not encouraging.[1] The tendencies of social change in Great Britain suggested serious doubts. Would the new methods of saving favoured by a community of increasing economic equality—if Great Britain was indeed destined to become such a community—be so easily compatible with the export of capital? Might not this community insist upon the principle of home development first? And might not this principle leave Empire development nowhere? These were very speculative

[1] See above, p. 182.

questions; but they had an extremely important bearing upon that 'colonial question' which was being so extensively debated. It was becoming increasingly understood that an imperial power would be failing in its duty towards its colonial dependencies unless it succeeded by one method or another in providing them with the material equipment (such as transport and works of water control) and the non-material equipment (such as improved health and education services) which would enable them to improve their economic and social condition. At the same time it was becoming increasingly clear that the traditional stimulus to colonial investment—the prospect of producing an export staple for sale in a profitable world market—could not in existing circumstances be depended upon to operate so regularly and powerfully as it had operated in the past. For these reasons it might become urgently necessary to make a new beginning in thinking out the economic implications of imperial responsibility, and possibly to begin a new search for methods of sharing that responsibility. Some of the issues which had already arisen during the period under review will be faced later in this volume [1] But our present concern is not with colonial dependencies It is with 'the autonomous nations of the Commonwealth' Their position was a very different one. Investment stimulated by the traditional economic incentives had long since given to them a highly developed productive equipment Most of them had progressed a considerable distance, if not the whole distance, towards economic and financial independence All of them, except Newfoundland, had withstood the shock of the depression. Some of them emerged from the depression with a resolve to reduce the burden of debt which the necessities of an earlier time had laid upon them [2]

Let us briefly survey the financial status of Canada in the year 1936.[3] Three aspects of it are worth stressing—first, Canada was still a debtor country, secondly, Canada no longer owed most of her debt to Great Britain, thirdly, Canada was in process of outgrowing her debtor status. Canada was still a debtor country because of the past borrowings which had equipped her for the work of territorial expansion. In 1936 the total British and foreign investment in

[1] See Part II

[2] See Sir Robert Kindersley's tables showing conversions and repayments by Dominion governments in *Economic Journal*, December 1937. Gross redemptions reached in 1936 the record figure of £74,000,000

[3] See *The Canadian Balance of International Payments, 1926–1936*, and *British and Foreign Capital invested in Canada and Canadian Capital invested abroad, 1926–1936* Both publications are by Dominion Bureau of Statistics, Ottawa.

Canada amounted to $6,833,700,000, Canadian investments in other countries amounted to $1,656,000,000, the difference between these two amounts, $5,177,700,000, represented Canada's net debtor position Prior to 1914 the greater part of this debt had been held in London. Since then, three things had happened. First, Canadians had bought back many of the Canadian securities held in London, this was a particularly profitable and popular transaction in the periods 1919–24 and 1931–3 when the pound sterling was depreciated in terms of the Canadian dollar.[1] Secondly, British investors had ceased to be large subscribers to new Canadian issues. Thirdly, United States investors had taken the place of British investors. As a result of this substitution, the United States' share of the total Canadian debt had become very much the larger one in 1936 it amounted to approximately four billion dollars.[2] British investors still held the largest interest in the railways which had pushed forward the Canadian frontiers, but the American interest was dominant in the newer activities of mining and manufacturing, and in the newer public utilities Two 'empires of investment' were therefore intersecting on Canadian territory, the larger and more progressive of them had its capital in New York But it would be quite wrong to envisage Canada as exchanging financial dependence upon Great Britain for financial dependence on the United States. Canada was already moving—and this is the third general aspect of her position which must be stressed—towards financial independence. She remained a debtor country because of her past, but she had already entered a stage in which on average annual account she exported capital rather than imported it Year after year the payments which Canada had to make to external bond-holders and producers and shippers and the like amounted to less than the payments which she received from the people who bought her goods or her gold or came to visit the Dionne Quintuplets or in other ways helped to swell the total of her visible and invisible exports. In 1936 the credit balance on all items of payment reached the record figure of $320,000,000 How did Canadians use their surplus? Partly in making new external investments for themselves, partly in paying off their old external debts Here we see a reverse side to the 'wastage' which was preoccupying students of British overseas in-

[1] During the War, also, large blocks of Canadian securities held in London were sold to United States buyers to cover war purchases

[2]

U S accumulated investment in Canada, 1936					$3,984,400,000
U K	,,	,,	,,	,,	$2,725,100,000
Total	,,	,,	,,	,,	$6,833,700,000

vestment. Seen from the other side of the Atlantic, this 'wastage' meant Canada's coming-of-age.

Australia, like Canada, was a debtor country. Like Canada, she had borrowed abroad in order to equip herself for the task of territorial and economic expansion; but her borrowings, to a far greater extent than Canada's, had been on the public responsibility of her governments Moreover, borrowing abroad almost always for her meant borrowing in London. A labour government in Queensland had explored New York's money market in the nineteen-twenties, but the amount borrowed in America was trifling. In Australia there were no intersecting 'empires of investment'. Australia was also moving much more slowly than Canada along the road leading to financial independence. During the nineteen-twenties she was greedy for imported capital, the loans raised by the Commonwealth and State governments averaged roughly £17½ millions in the three years ending June 1925, and £35½ millions in the three years ending June 1928. There was a correspondingly large negative balance of payments. Even before the onset of the depression, this situation aroused misgivings in Australia and in London. Thanks to good seasons and the shrewd fighting quality of her people, Australia came out of the depression with a strengthened economy and a restored financial reputation. She also came out of it with a new and healthy aspiration for financial self-reliance. By successful conversion operations she steadily reduced the burden of overseas interest, and at the same time her governments almost completely denied themselves new overseas borrowings. The total long-term and short-term external debt of the Commonwealth and States was £570,168,000 in 1928, and £588,362,000 in 1937—an increase in nine years of less than £20,000,000, little more than half a normal year's borrowing during the late nineteen-twenties.[1] Economic recovery enabled Australia to finance in large measure out of her own resources a rapid industrial progress But at the same time this progress stimulated an increasing inflow of private capital.[2] To sum up· Australia during the mid-nineteen-twenties put herself in a position of balance between a debtor-borrower and a debtor-repayer situation Given a moderate export price-level, she was able to achieve an increase of funds in

[1] See *The Australian Balance of Payments 1928–9 to 1937–8* (Commonwealth Bureau of Census and Statistics).

[2] The amount of private capital invested from time to time in Australia is extremely difficult to compute the official publication cited above, by a very tentative guess rather than a calculation, mentions £40,000,000 as a likely figure for the nine-year period 1928–9 to 1937–8 Unofficial guesses would give for recent years a considerably higher rate of private investment.

London and a reduction of overseas debt more than equal to her importation of capital. . . . But this was before she set herself seriously to the task of rearmament.

A brief glance at New Zealand's position as a debtor country may serve to introduce a new train of thought. The New Zealanders, like the Australians, had done some borrowing in haste and some repenting at leisure. In 1914 their government debt in London was £75,900,000; in 1935 it was £163,000,000. But in the next three years they reduced it by £5,500,000. They would not quickly forget those double quantities of butter and treble quantities of wool which they had had to deliver in their years of adversity to British bond-holders. The labour government which was returned to power in November 1935 was even more determined than its predecessor to reduce the dead-weight of external interest obligations. The labour government was also determined to broaden the base of New Zealand's economic life, to push forward policies of housing and public works, to guarantee economic and social security for all sections of New Zealand society. Did all these purposes agree with each other? During 1938 New Zealand's net assets in London, the fund which she must keep replenished by the sale of her exports in order that she might be sure of satisfying her needs as an importer and satisfying the claims of her creditors, were shrinking at a rate far more rapid than comfortable. This traditional barometer of New Zealand's overseas trading and financial position was pointing to difficult weather. The usual items of account did not altogether explain the dwindling of net overseas assets: the inference was that New Zealand was exporting capital at a time when Australia was importing it. But the programme of the government demanded notable increases of current and capital expenditure. How would these increases be provided for? The time appeared to be approaching when the government, unless it decided to curtail its programme, would be compelled either to seek a loan by public issue, or else to make daring use of the almost unlimited financial powers conferred on New Zealand's youthful central bank as an instrument of government policy. Are there signs here of an aspiration to financial independence leaping too far ahead of the necessary economic preparation? A new line of inquiry opens up.[1] it leads into a very wide landscape patterned by social democracy, economic nationalism, the international exchange of goods, the part played by money and credit in this exchange. It may well be that the study of marketing policy, which is the theme of the next two sections, will bring more order into these patterns than the study of

[1] It is pursued in Section V, below.

monetary policy Yet the New Zealand government and people had put monetary policy into the foreground 'Money' in the less metaphorical sense, the commodity which mints and banks deal with, must now become our object of inquiry.

. . . .

It was inevitable that communities which were carrying such a load of debt should become intensely preoccupied about money a change in the relation between money and the goods which they exported had made this load, which previously had not been too much for their strength, almost unbearable. The sudden crushing oppressiveness of their burden seemed an offence against common sense and justice: it seemed to invite (and in New South Wales it came near to provoking) an act of uncompromising repudiation. It would indeed have been easy for the Australians, and still easier for the New Zealanders, to dramatize their affliction as a wrong inflicted upon them by Great Britain. for was not Great Britain the arch bond-holder, and was not Great Britain, as chief importer of the products for which they were being underpaid, the virtual dictator of their destinies? But reflection soon made it plain that things were not so simple as that The same causes which were throwing out of gear their economic relationship to Great Britain were throwing out of gear their own internal class relationships, and Great Britain's as well. Inside the borders of each one of them, the gains of creditors and the sufferings of debtors were beyond justice and common sense There were other disturbances of class relationships. Prices had fallen unevenly; it was not only as a debtor, but as a purchaser of manufactured articles, that the farmer had to pay three bushels of wheat where formerly he had paid one. Moreover, the evil plight of the farmer did not by any means bring good luck to those classes who at first sight seemed marked out as beneficiaries from it creditors began to discover that they might whistle for their debts, manufacturers and shopkeepers began to discover that they might whistle for their country customers The evil times of the classes which suffered first and suffered most became the evil times of the community at large. The government of each separate community had to confront adversity with measures of salvage which were based on some conception, imperfect though it might be, of the general interest. The governments of the associated nations of the British Commonwealth were moved by precisely the same necessities to search for some method of defending their basic common interest in a shared prosperity.

The methods which they had in mind when they met at Ottawa

in 1932 were arranged under two main heads: markets and money. They concentrated on the former problem, perhaps rightly; but their concentration, as will appear in the next section, suffered from a distorting monopolistic squint. They were by comparison more clear-sighted and disinterested in their view of the monetary problem: after all, political parties had not as yet had time, even if they had the will, to seek sectional and party advantages by one-sided solutions of the problem. For they had only very lately become aware that there was any problem at all. Hitherto they had taken for granted the monistic London-centred standard, which, by the natural progress of the nineteenth century, had linked the currencies of all the trading nations. It had never been necessary to inquire whether it was to gold or to sterling that Dominion currencies were primarily attached: attachment to either meant attachment to the other. And the attachment was an automatic one; the little adjustments in which bankers were well practised were sufficient for their single uncriticized purpose, exchange stability. It was all just as clear and just as inevitable as the text-books. And yet it was merely an historical episode, an afterglow of that abnormal economic predominance and oceanic authority (and perhaps, no less, that abnormal reasonableness and moderation) which had enabled Great Britain to make her own convenience the convenience, not only of her dependencies, but of all trading nations. But nationalism has never hesitated to quarrel with established convenience. In defiance of established convenience, Mazzini inspired it to demand its own political order and List inspired it to demand its own industrial order: it was bound sooner or later to demand its own monetary order. And what European nationalism demanded, overseas nationalism would some day demand also, though the nations associated within the British Commonwealth would temper their demand by a recognition of common interests and a common outlook mitigating their separateness. It would be by pressure of circumstance, rather than by way of deliberate self-assertion, that the Dominions would question the unified and centralized monetary system to which they were by their history bound. They would not aggressively raise the issue of self-determination versus London-determination, so long as London seemed to them to determine efficiently and wisely. But supposing London-determination got them into trouble? The progress of economic and historical study in their universities began to reveal to them how regularly their ups and downs of prosperity (but it was the downs which most preoccupied them) followed the turning of Great Britain's trade cycle. Students, to their surprise, found them-

selves agreeing with the heretics who declared that the sterling-gold standard was an automatic transmitter of slump from an industrial and creditor Mother Country to an agricultural and debtor Dominion. When the worst financial crisis of modern times hit London in 1930, there were in the Dominions professors, there were even bankers, who demanded, 'Why should we be tied to gold?' And when later on sterling fell away from gold, the same respectable persons dared to ask, 'Why should we be tied to sterling?'[1]

Great Britain herself had been compelled to assert monetary self-determination against an international system which had once been, but was now no longer, a system working according to British rules and with due respect for British convenience. Once this international system was broken, nationally managed currencies followed inevitably. But the British Commonwealth was not a single centrally governed nation; the management of currency within its boundaries, like the management of immigration or tariffs, necessarily conformed to its many-centred constitutional order. This did not happen suddenly, nor by deliberate application of the principle of equal national status, it happened through a growing awareness in each Dominion of the special needs of its own individual national economy. How could the Dominions begin promptly and purposefully to manage their separate currencies, when they had not as yet equipped themselves with the institutions of management? In 1932 neither Canada nor New Zealand nor India possessed a central bank. South Africa had possessed a central bank since 1921; but its establishment did little to modify the South African system under which two great banks, with a widespread system of branches, maintained a close connexion with South Africa's 'natural' reserve centre in London. Australia possessed her nationally owned Commonwealth Bank, but this institution was as yet performing very few of the functions of a reserve bank. Australia's experience in the early years of the crisis illustrates very well how untheoretical and how unplanned was her withdrawal from the Empire's centralized unity of currency control. In October 1929, and again in January 1930, the Commonwealth Bank protested that 'it could not possibly desire to advise any action which would savor of Australia departing from the gold standard'.

[1] It is particularly at this point that the reader should remember the warning given above (p 178) that a rapid non-technical narrative cannot hope to avoid over-simplification The narrative gives an account of the movement of opinion with regard to 'the transmission of slumps', 'financial self-determination', &c The ideas behind these phrases demand and have received critical examination It would be out of place here, but it must not be assumed too readily that national monetary systems can cure all the evils for which the international system has been blamed.

But already, owing to pressure on Australia's overseas exchange reserves, the rate of exchange had risen over the gold-export point. The Commonwealth Bank could perceive no 'justifiable expedients' for relieving this pressure, 'excepting the determination drastically to reduce the importations of things non-essential'. The trading banks were already rationing exchange to importers and to absentee Australians, the labour government slashed at imports by drastic tariff schedules and a primage duty and prohibitions. But the pressure continued, and the attempts of the bankers to peg and ration exchange were defeated by the operations of an 'outside market' which exchanged the pound Australian for the pound sterling at a rate which testified to the real discrepancy in their value. Throughout 1930 the rate quoted by the banks rose in reluctant but steady pursuit of the rate quoted by the outside market. At last, in January 1931, the banks decided to make a virtue of necessity. By successive stages they raised their rates of exchange until at the end of the month they were quoting a premium of $31\frac{1}{2}$ per cent on sterling. But it was not the Commonwealth Bank which had brought them to this decision. It was a private institution, the Bank of New South Wales, which led them where they had to follow.

So the pound Australian had been separated from the pound sterling by a process and to a degree which neither the Commonwealth government nor the Commonwealth Bank had controlled or willed. It was really a separation from sterling, not merely a separation from gold; for when later in 1931 sterling itself left gold, the gap between the British and Australian currencies remained what it had been since the end of January. Australia was the possessor of a distinct national currency. But it could hardly as yet be called a managed currency. Management had not arranged the divorce from sterling, it emerged gradually as the sequel to this divorce. The story of its emergence is too complicated and technical and lengthy to be told in detail here. It is not the story of a self-conscious national demand and its satisfaction. It was London which sought to encourage the creation of well-developed central banks throughout the British Commonwealth; suspicious nationalists in the Dominions sometimes interpreted London's advice as a sinister move to rivet on them the control of the Bank of England. Yet the evolution of national instruments of financial control marked a new stage along the road of decentralizing the Commonwealth on the basis of national autonomy. The evolution of new institutions was associated with the evolution of a new idea about the functions of currency and credit control. This idea made gradual but steady headway amidst the

clash of opposing interests and theories. The old idea had restricted the function of management to the maintenance of external exchange stability, according to the new idea, its chief function was the maintenance of internal economic stability. The expert commission which reported to the Commonwealth government in July 1937 defined the aim of policy as 'the reduction of fluctuations in general economic activity in Australia'. But before the central bank of the Australian Commonwealth could perform this function adequately, it would need enlarged powers of control over the trading banks. Its status of ultimate subordination to the government of the Australian Commonwealth would also demand clear definition. In the opinion of the commission, Australia's evolution towards the national management of currency and credit was not yet complete.[1]

Nevertheless, that evolution had carried Australia very far from the old London-controlled order which before 1930 had hardly been questioned The same evolution, with an impetus which differed according to circumstances, had been at work in the other Dominions. Only South Africa had been on the whole content to leave things as they were, since her departure from the gold standard in December 1932 she had seen no reason to question the economic good fortune which accrued to her as the world's greatest gold-producer. But Canada, India, and New Zealand had all newly equipped themselves with central banks They moved forward, however, at different rates of speed in equipping these instruments for the execution of national policies of currency and credit. India's movement was the slowest, New Zealand's the most rapid

Enough has been said to show how natural was the process by which the new business of monetary policy adapted itself to the pluralistic form of the British Commonwealth It came naturally under the rubric of Dominion status. But it was true of currency and credit, no less than of defence policy or of foreign policy, that a gap existed between the status of a Dominion and the functions which it was able to perform. What Australia or New Zealand did with their own currencies would have little influence on the commercial and financial situation of the outer world in which they sold their exports; but Great Britain's decisions about currency and credit might still exercise a determining influence. The monetary self-determination towards which the Dominions were moving was therefore tempered by their association with each other in a wide society under Great Britain's presidency. Their monetary fortunes

[1] See A G B Fisher, *Twentieth Century Banking in Australia*, *Economic Record*, December 1937.

were both distinct from, and linked to, the fortunes of sterling. Their deep realization of this situation showed itself in the discussions of the Ottawa conference in 1932. Their currencies seemed then to be at sixes and sevens with each other—sterling at a discount to gold, the South African pound still proudly resting on gold and at a premium to sterling, the rupee at its old parity with sterling, the Australian and New Zealand pounds at their respective discounts to sterling, the Canadian dollar 'sound', like the South African pound [1] Not one of the Dominions had the least intention of surrendering its freedom to differ from sterling But all of them were anxious to maintain a stable relationship to sterling, provided sterling led them in the direction where they wanted to travel. All of them, except South Africa, wanted to move forward under sterling's leadership towards an era of restored prices South Africa flatly asserted (but before long she would be moved to change her opinion) that the primary objective of monetary policy should be the restoration of the international gold standard. Canada admitted the need of a universal yardstick, and was willing to believe that gold might be the best one, but she insisted on the urgent need of raising prices. Australia and India and New Zealand insisted with passionate conviction that a raising of the price level must be placed before every other objective of monetary policy. It was to Great Britain that they looked for a lead. Mr. Bruce believed that the lead would be followed, not only by the nations of the Commonwealth, but by other countries outside the Commonwealth. Sir Henry Strakosch believed that the monetary policy of the United Kingdom would be 'the decisive factor' [2]

This vehement advocacy partly gained its end. The conference, it was true, recorded its conviction that the ultimate aim of monetary policy should be the restoration of a satisfactory international standard But it also recorded its conviction that certain things had to happen first. It was no use trying to re-establish an international standard until a rise in the price level had restored a reasonable balance between the producer's costs and his receipts, and had eased the intolerable burden of debt Nor was it any use trying to restore

[1] 'Keeping the dollar sound' meant maintaining the parity with sterling prior to September 1931, i e appreciation in relation to devalued sterling This was defended at the time on the ground that it helped Canada to maintain external interest payment, but has been increasingly criticized (especially after comparison with Australian policy) because of its damage to exporters of primary products (see e g. evidence of Professor Ahern Hansen to Commission on Dominion-Provincial Relations, 1938).

[2] Cmd. 4175 of 1932, pp. 141, 164.

an international standard—the gold standard or any other—if the political, economic, and monetary causes which had wrecked the old standard were still in existence and ready to wreck the new standard. The British representatives at Ottawa believed that some at least of their Dominion colleagues paid too little attention to the political and economic causes of their affliction, as distinct from the monetary causes They would not put too much hope in monetary remedies alone. Nevertheless, they did agree to direct Great Britain's monetary and credit policy towards a raising of the price level. And although they were suspicious of the reflationary public works policy which some experts advocated, they promised to do their best to promote economic recovery by keeping the rate of interest low.

The monetary discussions at Ottawa were less provincial than the discussions about markets. The tendency of the latter was towards the exclusion of other nations, but the tendency of the former was towards their inclusion. The governments which met at Ottawa regarded their deliberations about money as a prelude to the deliberations of the World Economic Conference which was due to meet in the following year. They hoped that they would be able to push through that conference the double policy which they had affirmed at Ottawa—a rise in the price level to restore the profitable production of commodities, and thereafter a restoration of an international standard to facilitate the widest possible exchange of commodities But the difficulty of reconciling the two objectives amidst the national fears and suspicions which divided economic society proved too much for the World Economic Conference. On the eve of its meeting, the United States had left the gold standard and decided on its own account to make the raising of prices the first objective of its monetary policy. It was impossible to build a bridge between Roosevelt's America and the gold-standard countries of continental Europe. Between these two areas was the sterling area, led by Great Britain, supported by the nations of the Commonwealth, but embracing a still wider circle of nations The members of the Ottawa circle published a resolution of their own, affirming the restoration of the gold standard as their ultimate objective, but reaffirming their intention to secure first a restoration of profitable and stable prices. They announced their intention of concerting their economic and monetary policies in order to realize among themselves the double objective of a restored price level and steady exchanges. They announced at the same time that their inner circle was not a closed one, it was open to the entry of other nations The sterling circle did indeed expand. In September 1936, by the rather over-advertised 'Tripartite Agreement', its

policies had the outward semblance of a linking with the policies of France and the United States

The monetary independence which the nations of the Commonwealth had achieved was from the very beginning qualified by their recognition of an interdependence embracing their associates in the Commonwealth and other co-operating nations. And yet they looked on their independence as a real thing Their acceptance of British leadership in the sterling association was conditional, like their acceptance of British leadership in other spheres. The purposes of the association must be respected Great Britain, in her leadership, must harmonize her needs with theirs. If things turned out otherwise, they were ready to employ all the instruments of self-help.

It was New Zealand, traditionally the most dutiful of the Dominions and the one most economically dependent upon Great Britain, who armed herself with the most formidable weapons of monetary self-help. In August 1934 a coalition government established the New Zealand Reserve Bank; in April 1936 a labour government transformed it into a completely State-owned and State-controlled institution, charged under statute with one all-embracing duty—'to give effect . . . to the monetary policy of the Government . . .' The statutory powers conferred on the bank for the performance of this task were of the most comprehensive character It was empowered to control currency and credit in New Zealand, to regulate the transfer of funds to and from the country, and the disposal of moneys derived from the sale of New Zealand products. It was empowered to grant overdraft accommodation without any limit to the New Zealand government or to any duly authorized body for the purpose of financing the purchase and marketing of New Zealand produce. The national currency which was entrusted to its management was linked to sterling, and was defined in the statute as the sterling-exchange standard. It was part of the bank's normal duty to exchange sterling for its own notes and its own notes for sterling at rates declared by itself. But the statute conferred on the Minister of Finance power to suspend this obligation. The statute thereby announced that New Zealand had only conditionally linked her currency to sterling, a decision of the government would be sufficient to break the link.[1]

The impulse and theory which had equipped the Dominion of New

[1] The original Reserve Bank of New Zealand Act, 1933, had conferred on the bank by no means negligible powers It needs to be studied together with the amendments contained in the Finance Acts of 1934, 1935, 1936, the Banking Amendment Act, 1935, and the Reserve Bank of New Zealand Amendment Act, 1936

Zealand with such complete powers of monetary self-determination were the impulse and theory of economic nationalism. The thought behind the legislation expressed itself in a much-repeated phrase, 'insulation'. If ever a new inrush of menacing economic forces should threaten to engulf the Dominion's prosperity, the government's planned fortifications would hold them at bay, of these fortifications the central bank would be the citadel. But did not this brave attitude reveal a partial reading of New Zealand's history? It was not only depression, it was also prosperity, which had been transmitted to New Zealand from outside. If an external price level had on occasion wrought havoc in the Dominion, it had been throughout long periods the dynamic of her progress. It was the demand of the outer world for New Zealand's meat and butter and wool, and particularly the demand of Great Britain expressing itself in sterling prices, which had enabled the New Zealanders to make their country a Dominion. An exporting country cannot 'insulate' itself from the direct repercussion of a rise or fall in the prices which its exports command, all that it can hope to do by management of the exchange and credit is to prevent or mitigate the secondary effects. Probably the New Zealanders already knew this in their hearts, if they did not, they were bound to learn it by future experience.[1] That experience would not be monetary experience only The management of money was only one aspect of economic planning. And economic planning was only one aspect of economic activity. History had determined that the basic problem which the New Zealanders had to face was the problem of markets

III

'Markets'

Throughout a century of history, the expansion of the Dominions had been persistently conditioned by their prospects of selling at a profit those products which they were fitted to produce An expanding and profitable market had always stimulated the flow of capital and labour into them; a contracting and unprofitable market had always reduced the flow, and sometimes even reversed it. The stalemate in which the nineteen-twenties ended drove home this lesson of economic history. By 1932 the statesmen of the Dominions had abbreviated their optimistic slogan, 'Men, Money and Markets', into one despairing cry—'Markets'.

But what did 'markets' mean? The old ambiguities and conflicts

[1] See Section V, below.

were not yet resolved. According to liberal economic theory, 'markets' meant the Great Commercial Republic—a world of free and impartial trade, or at least a world attempting so far as might be to shape itself according to this ideal. According to the opinion of most people in the Dominions and of the 'Birmingham School' in Great Britain, 'markets' meant national protection in all the units of the British Commonwealth and a projection of these separate protective systems into an imperial network of mutual shelter. Would the shelter be adequate? How wide a margin for helpful preference would national protection permit? Existing tariff practice in the Dominions, and undertones of protectionist propaganda which were audible in Great Britain, suggested that the margin might be a disappointing one. But suppose these forebodings unfounded: suppose that the members of the Commonwealth, united in their resolve to protect themselves against foreign competition, were united also in their readiness to give to each other an increased and substantial right of entry into each others' home markets. Would this freer flow of imperial trade do much to relieve the marketing difficulties of those members whose production demanded outlets wider than any which the Empire could supply? Might not the nations of the Commonwealth pay dearly, by the loss of goodwill and opportunity outside their own intimate circles, for the favours which they granted each other? The apostles of protection and preference brushed these questions aside. They had been fighting for their political programme for a generation or more; it was hardly likely, when victory seemed near, that they would damp their fighting enthusiasm with judicial doubt In political struggle, judicial doubt is a luxury which only the victorious can afford.

The champions of imperial preference could not achieve their ideal until they had stormed the citadel of liberal economic theory in Great Britain. As early as the Colonial Conference of 1887, colonial sharpshooters had begun to pepper this citadel. Even then they had a few English allies, and the English reinforcement grew with the years. At the beginning of the twentieth century Birmingham contributed its heavy artillery to the attacking forces. Between 1915 and 1923 the walls of the citadel were breached; there were premature shouts of victory. But the defenders of the citadel closed most of the breaches. Disillusionment with 'the economic consequences of the peace' restored the prestige and confidence of liberal economic theory. Business men wistfully awaited a return to 'normal', and convinced themselves that 'normal' meant the world of 1913. Officials in Whitehall became once again internationally minded, and

looked forward to the day when 'a general restoration of the economic health and prosperity of the countries with whom we trade' would restore the economic health and prosperity of Great Britain.[1] The liberal party, traditionally the champion of free trade, was, indeed, on the decline, but the labour party inherited a legacy of liberal economic doctrine. The British electorate in 1923 rejected the conservative government which had challenged this doctrine by its promises to the governments represented at the Imperial Economic Conference. In order to recover and retain power, the conservative party temporized It postponed the fiscal struggle For eight years more the champions of protection and preference were baulked of the victory which in 1923 had seemed to be within their grasp During these years, British fiscal policy oscillated narrowly around an uninspiring *status quo* When the labour party was in power, it made little cuts at the scanty protective and preferential duties which already existed, when the conservative party was in power, it made petty additions to those duties. The walls of the free-trade citadel had been breached here and there, but they still stood impressively throughout the nineteen-twenties In 1931 and 1932 they fell suddenly with a resounding crash

They collapsed because they had been undermined The undermining was done in the seemingly sluggish nineteen-twenties. In those years the British people gradually became aware of two sets of circumstances, the one hopeful, the other disquieting, they followed with increasing attention the rapid economic growth of the Dominions, and they realized with increasing uneasiness the flagging economic vitality of their own economy. Their growing awareness of progress in the overseas Empire was due in large measure to two new institutions, the Imperial Economic Committee and the Empire Marketing Board. The first of these institutions was established in accordance with a resolution (Canada dissenting) of the Conference of 1923; it was a co-operative body which conformed to the emerging principle of equality between the autonomous nations of the Commonwealth; its members were separately responsible to their own governments [2] Its functions were in the strictest sense advisory, within this limita-

[1] See *Survey of Markets in 1925*, report by Sir Arthur Balfour's committee, p. 9.

[2] Cmd 1990, p 18 Among the more valuable publications of the Imperial Economic Committee are its *Reports to Governments* on specific products, trades, or problems, its *Surveys of World Production and Trade* (e g Cattle and Beef, World Consumption of Wool, 1928-35), its *Commodity Series* (e g meat, fruit, dairy produce, plantation crops), and its *Intelligence Services*, including weekly or monthly surveys (e g Dairy Produce Notes or Wool Intelligence Notes) and annual reviews. The Annual Report, 1937, gives a general conspectus of the various activities of the Committee

tion it built up a tradition of regular and useful service in the collation and dissemination of economic and statistical information about the production and market prospects of the commodities which were important to the various countries of the British Empire. To the Empire Marketing Board was allotted a task of wider popular appeal. This Board was not an institution belonging equally to the several autonomous and co-operating nations of the Commonwealth. Although it included some representatives of the Dominions, it was essentially a United Kingdom body, paid for by the United Kingdom tax-payer.[1] It originated in 1926 as a gesture of apology and good intention on the part of the United Kingdom's conservative government; that government had not ventured to seek from the electorate a mandate to grant the fiscal preferences which the Dominions wanted, but it was ready to spend up to £1,000,000 a year in fostering among British consumers a 'voluntary' preference for Dominion products. By an expenditure which never approached the million mark, the Empire Marketing Board succeeded in creating among the British masses the vision of a colourful Empire with a profusion of delicious commodities It succeeded in doing many other things besides. The Board's beautifully designed posters in their attractive frames, its cinema productions and its film library, its Empire Shopping Week and its Window Dressing Competition, its cute propagandist inspirations ('the recipe for an Empire Christmas Pudding provided by His Majesty's Chef'),[2] its Buy British Campaign launched by His Royal Highness the Prince of Wales, its lectures, its leaflets, its newspaper propaganda—all this and much more testified to its unwearying enthusiasm in 'advertising an idea'.[3] Yet the Board insisted that advertising was not its first function. 'Publicity' could do no more than garner the harvest which 'Research' had sown. The research in which the Board interested itself was of two kinds, agricultural and economic. With regard to the former, it conceived its task to be not that of performing the work, but of stimulating and endowing it. Government departments, universities, and research institutions throughout the length and breadth of the British

[1] The Empire Marketing Board comprised the Secretary of State and the Under-Secretary of State for the Dominions, the Financial Secretary to the Treasury, the Parliamentary Secretary to the Minister of Agriculture, the Under-Secretary of State for the Colonies, the Parliamentary Under-Secretary of State for Scotland, and other representatives of the United Kingdom, together with one representative for each of the Dominions and one representative for the Colonial Empire

[2] E M B *Annual Report*, 1927–8, p 38.

[3] Ibid , p. 39 'The Board's task is to advertise an idea rather than a commodity', i e in the language of the advertising profession, its propaganda was of the 'background' rather than the 'directional' variety.

Empire profited from the grants of money which the Empire Marketing Board made to help investigations in plant pathology and plant breeding, in diatetics, forestry, entomology, geophysics, the production of wool and flax and tea and sugar and tobacco and pineapples and rice and bananas—the list lengthened with the years. For economic research the Board made less lavish, and possibly less disinterested provision. It did not try to draw a precise academic line between investigation and propaganda. It endowed a chair of Imperial Economic Relations at the London School of Economics, and assumed ingenuously that the Professor would give public lectures 'on behalf of the British Empire'.[1] It occupied some statistical ground which might well have been left to the Imperial Economic Committee, it instituted regional surveys of the retail demand for butter and other commodities, and it made these surveys ancillary to its advertising campaigns. It investigated the purchasing habits of local authorities, and admonished the negligent or wilful ones who bought from foreigners when they might have bought within the Empire[2] A close reading of its annual reports suggests that it was advertising, perhaps quite unconsciously, not merely an 'idea', but an economic theory and a policy. It helped to spread the belief that bi-lateral trade between members of the British Commonwealth was the most desirable kind of trade.[3] With an unconscious appeal to a strictly insular protectionism, it coined the slogan 'Empire buying begins at home'[4] Its economic theory—although only by an occasional lapse of discretion did the theory ever express itself in a phrase—was the theory of sheltered markets. It assumed the ideal which the Conference of 1922 had affirmed, and which the Conference of 1932 would affirm again· Great Britain first, the Empire second, foreigners last. After 1932 the Empire Marketing Board was allowed to die. Its composition was inconsistent with the theory of a co-operative Commonwealth of equal members. The Dominions could have remodelled it, but then, they would have had to share its cost. They did not think this worth their while. Having secured their tariff and quota

[1] E M B *Annual Report*, 1931–2, p. 99.

[2] Ibid, p 85 'During the year under review the tender forms of no less than 319 Local Authorities and Public Institutions were, as a result of suggestions made by the Board, revised with a view to the substitution of articles of Empire for those of foreign origin'

[3] e g this legend on an E M B poster of 1928–9 'A contract for Australia is now in hand at these works *Question* How can you help to secure further contracts from Australia? *Answer.* By buying, and getting others to buy, the products Australia is sending to us BUY AUSTRALIAN sultanas and raisins, butter and cheese, canned peaches, pears and apricots, apples (April to August), honey (Golden Wattle).'

[4] E M B. *Annual Report*, 1927–8, p 36.

preferences, they would leave the 'voluntary' preference to look after itself. Great Britain was not in the mood to keep on carrying the whole cost.[1] After the Ottawa bargaining, she felt herself quit of her obligation. So nobody had any real cause to grumble, except possibly the Colonies.[2] But the Dominions, whether or not they realized it, had real cause for gratitude. The Empire Marketing Board had done a good deal to widen and deepen in British public opinion the track which led at last to the imperial commercial policy which they had so long desired.

. . . .

It was not only a growing awareness of progress in the overseas Empire, but a growing realization of stagnation at home, which prepared the sudden triumph in Great Britain of national protection and imperial preference. The contrasted economic fortunes of Great Britain and the Dominions were commonly linked together in the frequent discussions and controversies about Empire trade. What was the position of Empire trade? This is a most difficult question to answer in simple terms. The controversialists, of course, always did answer it in simple terms, and demonstrated their answers with statistical tables of triumphant neatness and cogency. These exercises in figures were very seldom conscious distortions, but almost always they were over-simplifications of a very complicated reality. This was almost bound to be so; for the raw material of commercial statistics is contained in millions of individual transactions and book-entries; a statistical table, if it is to be succinct, must needs be highly abstract and selective, and there are very many different points of departure for the work of abstraction and selection. The discussions before, during, and after the Ottawa Conference are strewn with statistical demonstrations which follow a whole series of tangents. All of these statistical demonstrations are the historian's raw material, but not all of them are equally significant, the historian must use his trained judgement in assessing the integrity, ability, and relevance they severally embody. It would be useful to place at the head of each table of figures an appropriate caption—'Said Mr. Baldwin', or 'Said Mr. Bennett', or 'Said the *Economist*'. To get deeply tangled in the thicket of controversy would be foolish; it is much more profitable to stand outside the thicket with the purpose of observing its general shape.

[1] Mr J. H Thomas said 'No words can adequately express the work of the Empire Marketing Board We are anxious to continue that work, but we are not prepared to feed the baby' *The Times*, 20th July 1933.

[2] There was a mountain of newspaper grumbling, see the columns of *The Times* during July, August, and September 1933.

In the years which preceded the Ottawa Conference, certain individuals and organizations attempted to do this very thing. The body which would have been most qualified to do it—the economic section of the League of Nations—did not indeed make the attempt; its purview was at that time so strictly non-political that the British Empire did not appear within it at all. Its annual *Review of World Trade and Balance of Payments* rested upon the information collected in each 'independent statistical area': every separate political division of the British Empire was such an area, but the Empire itself was not one.[1] The *Review* did not attempt to group together those areas which were united by their allegiance to the Britannic Crown; its grouping was by continents (for example, Africa) or by maritime neighbourhood (for example, the Caribbean area or Oceania). There was, however, in London an organization—the Imperial Economic Committee—whose business it was to study economic conditions in 'the Empire as a whole'. In 1930 the secretary of this organization made use of the material collected by the League and by governmental statisticians in Great Britain in order to survey the Empire's commercial fortunes between 1913 and 1928.[2]

His survey would seem at first sight to proclaim good news. The twentieth-century British Empire, like seventeenth-century England, was finding its fortune 'by forraigne trade'. Its trade, which was increasing at a rate above the average world rate, appeared to be in 1927 double the trade of the United States, and almost a third of the total trade of the world. In reality the result was not quite such a flattering one; it was reached by aggregating all the imports and exports of the component parts of the Empire—a method which credited to 'the Empire as a whole' the trade which its parts did with each other. If both the British Empire and the United States were to be treated as 'wholes', it was only fair to eliminate the intra-Imperial trade of the one, just as the inter-State trade of the other was eliminated. But the value of this 'domestic' trade was only one-third the value of the 'Empire-foreign' trade; moreover, the latter was increasing more rapidly than the former.[3] A revised cal-

[1] The *Review of World Trade* has since then considered imperial units.

[2] Reports of the Imperial Economic Committee. Thirteenth Report. *A Memorandum on the Trade of the British Empire 1913 and 1925 to 1928*, by Sir David Chadwick. The report was based on the League material (re-grouped) together with the Statistical Abstract of the United Kingdom and figures prepared by the Board of Trade for the Federation of Chambers of Commerce of the British Empire.

[3] *Ratio of intra-Imperial trade to total Empire Trade*

	1913	*1925*	*1926*	*1927*
(Including Irish Free State)	24·6%	29·7%	26·7%	24·3%
(Excluding Irish Free State)	24·6%	23·2%	22·0%	22·5%

culation would, therefore, still throw into relief the *proportionately* rapid increase of the Empire's commerce, and the Empire's large share in world commerce. In 1913 the share was by this calculation 18·86 per cent., and in 1927 it was 20·28 per cent.—a figure which gave a comfortable margin of advantage over the United States of America, and would have given a margin of advantage over the United States of Europe, had such a body been in existence and its foreign commerce been calculated by a similar method.

Was not this news reassuring? Was it not cause for patriotic joy? It might have been, had 'the Empire as a whole' been an economic unit. But the reverse was true. The statement that the Empire was on balance an importer of goods had no meaning for India, which, partly because of its debt to Great Britain, was on balance an exporter of goods. The statement that the exports of the Empire were rapidly increasing had no meaning either for India or Great Britain, for, in terms of 1913 prices, the exports of the former were no more than they had been in 1913, and the exports of the latter were less. The statement that the Empire's foreign trade was three times as large as the trade between its component parts meant nothing to New Zealand, which took half its imports from Great Britain and sent to Great Britain more than 80 per cent of its exports. And what did the distinction between the Empire's 'foreign' and 'domestic' trade mean to the wool-growers of Australia or the wheat-growers of the Canadian prairies? Their private fortune depended on their ability to make a profitable sale of their produce, no matter who the buyers were. Nor could the governments of Australia and New Zealand, in studying the balance of payments and the budgetary situation of the communities to which they were responsible, afford to make this distinction; in guarding the prosperity and solvency of their countries they had to regard their trade with Great Britain (though it might be predominant in bulk and seem preferable in principle) as no less 'foreign' or 'international' than their trade with Germany. In short, the concept of 'the Empire as a whole', although it might be interesting to the peoples and governments of the autonomous nations of the Commonwealth, had little direct bearing upon the decisions which they were compelled every day to make in the management of their several economic households.

It was therefore necessary, if the discussion of Empire trade were to be of use to the Empire's traders and governments, to resolve the abstract imperial concept into elements which were closer to the immediate problems of commercial and political life. The memoran-

dum of the Imperial Economic Committee began this task by separating Great Britain from the 'Overseas Empire'. This separation at once brought to light the significant fact that the growth of Empire trade was an overseas rather than a metropolitan growth. In 1913 the imports of the overseas Empire had been 30 per cent. less than those of Great Britain, and its exports had been 9 per cent. less; in 1928 its imports were only 7 per cent. less, and its exports were 40 per cent. more. But the 'Overseas Empire' was a concept hardly less abstract than 'the Empire as a whole', there was no unity in the economic circumstances and problems of New Zealand, Newfoundland, and Nigeria, nor were the people of Malta likely to ring their bells for joy because rubber was booming in British Malaya. Were all the communities of the Overseas Empire increasing their trade? And if not all of them, which of them? The memorandum made no attempt to investigate the position of the colonies It was content to hazard the opinion that 'the Colonial Empire as a whole'—here was another generalized concept which meant nothing to Tanganyika or Trinidad—was expanding its trade at a more rapid rate than 'that of the other parts of the Empire taken together'. The self-governing portions of the Empire, however, received specific attention. Their position, and that of India, was summarized in the following table·

Percentage changes in volume of trade (1913· 100)

	Imports				Exports			
	1913	*1925*	*1926*	*1927*	*1913*	*1925*	*1926*	*1927*
United Kingdom (*a*)	100	111 (108)	114 (112)	117 (114)	100	80 (76)	72 (68)	73 (69)
Canada	100	114	136	152	100	210	205	205
India	100	78	85	100	100	101	93	100
Australia . .	100				100	95	115	110
South Africa .	100	101	112	119	100	110	98	118
New Zealand	100	156	156	147	100	136	136	145
U S A	100	166	179	180	100	137	145	157
The World (League's figure) . .	100	108	112	122	100	107	109	118

(*a*) Figures in brackets are the result of omitting trade with the Irish Free State.

Here at last was something concrete; it showed that each one of the Dominions (with Canada in the van and New Zealand second) was increasing its exports and imports, whereas the exports of India were in this period at best stationary and those of Great Britain were diminishing. Here would be the starting-point for that kind of

research which the economic historian understands—research into the growth of individual economies, or into the rise and fall of particular industries. And here might be the starting-point of those calculations of advantage which ministers of commerce and their advisers are accustomed to pursue. Was there anything in the tendencies of British and Dominion trade which might lead Dominion politicians to reconsider their long-cherished ideal of reciprocal imperial preference? They might with some justification begin to question their habitual assumption that Great Britain was a market of unlimited possibilities. Yet Great Britain was the centre towards which 80 per cent. of 'Empire trade' still radiated, and Great Britain was still, for many of the Dominions, a market of overwhelming importance.[1] Great Britain was, moreover, a market whose consuming capacity was still on the increase measured by 1913 prices, it had risen 41 per cent. between 1913 and 1927.[2] In the same period, the Empire's share of British imports had risen from 20·5 per cent to 27 per cent. Might not political action increase this share? In good times, and still more strenuously in bad times, the Dominions battled for a wide extension of imperial preference So far as they were concerned, there was no new thing to be explained, their thought still ran in the old grooves

It is the revolution in English thought which needs explaining. It can hardly be explained without some awareness of the commercial changes which have been touched upon above. The good news of general imperial progress did not include the particular good news which Great Britain would have liked to hear. While world trade

[1] On the eve of the Ottawa Conference percentage exports to the United Kingdom were Canada, 28 3 (excluding exports via U S A), Australia, 49 8, New Zealand, 87 7, India, 27 9, South Africa, 43 4

[2] The following figures, which are 'only rough', compiled by Sir David Chadwick (*Memorandum*, p. 22), indicate the part which the Empire and foreign countries played both in the import and export trade of Great Britain in 1913 and 1927 respectively

	Empire Overseas (omitting I F S.)			*Foreign countries*		
	1913 £ millions	*1927 £ millions at 1913 values*	*Per cent change*	*1913 £ millions*	*1927 £ millions at 1913 values*	*Per cent change*
Imports retained for consumption in U.K from	135	191	41	524	601	15
Exports of U K produce and manufacture to	195	178	9	330	235	29
Total trade	330	369	12	854	836	2

had been increasing and the Empire's trade had been increasing at an abnormally high rate, British trade had been stagnating, imports alone had been on the increase; exports had been on the decline. This meant that Great Britain was depending increasingly for the maintenance of her people on the shipping and financial services which she rendered to other nations and on the tribute which she drew from them as the result of her past investment abroad; it meant that her capacity to expand, perhaps even to maintain this investment, was drying up, it meant a threat of real danger to her economic structure and the standards of her people. What was the cause of this stagnation, and what was the remedy? For a time it was fashionable to allege as cause the war-time collapse of Europe, the currency depreciations of unscrupulous or desperate competitors, and other such transient phenomena. But a Genevan observer pointed out in 1931 that, whereas continental Europe had more than recaptured its pre-War vigour, Great Britain had 'lost ground to the great and to the small, to the financially pure and the financially reprobate, and principally to the United States' This observer accused British producers and traders of a failure to understand the changing world in which they lived and of an inability to adapt themselves to its changes. 'We are to-day standing still or but crawling in a progressive world. We are standing or crawling with an awkward rigidity in a world in which suppleness is becoming a constantly more imperative quality, because demand is becoming constantly more mobile '[1] It was an economist's diagnosis—not by any means the only one, but one which expressed the aloofness traditionally associated with orthodox economic science, from political explanations and programmes. It alluded to, but did not stress, the fact that Great Britain's loss of trade in Empire markets was much smaller than her loss in foreign markets—a mere 9 per cent. compared with a 29 per cent loss But to men of a different temper and training this fact was the central one; they turned it into a thesis and a policy. The policy was the old policy of imperial preference; the thesis which supported the policy was 'The Growing Dependence of British Industry upon Empire Markets'.[2]

The thesis could be expressed in a few staccato propositions. Great Britain had indubitably lost trade while her rivals had been gaining it: in 1927 her index of exports (taking 1913 as 100) was 83, whereas

[1] Loveday, *Britain and World Trade* (Longmans, 1931), p 149

[2] E M.B 23. F. L McDougall, *The Growing Dependence of British Industry upon Empire Markets.* Cf *Sheltered Markets* (John Murray, 1925) by the same author, who was economic adviser to the Australian High Commissioner in London.

that of the United States was 157 and that of Italy was 134. Moreover, Great Britain's loss had been heavy in every foreign market throughout the world. It had been far less heavy in the Empire's markets[1] Admittedly, the Empire was buying proportionately less from Great Britain and proportionately more from her competitors but within its boundaries an increasing proportion of British exports were finding their outlet in 1913 the proportion was 37·2 per cent, in 1927 it was 46 per cent. What, then, was the economic significance of the Empire for the future of Great Britain? It offered 'a series of sheltered markets for British industry'. Would not Great Britain be foolish if she refused the opportunity? Her imperial markets were capable of a great expansion Empire countries were growing more rapidly than foreign countries, Empire purchasers spent far more per head on British goods than foreign purchasers did. Was it not common sense—the thesis was now moving towards the policy—to take particular pains in cultivating these good customers? Not that other customers need be neglected There was no reason why Great Britain, in availing herself to the full of the imperial shelter which was offered her, should do the least harm to her trading prospects in the world at large. On the contrary.

> 'The existence of, and the further development of, these great sheltered markets should provide to the British manufacturer a considerable measure of that security which the home demand of the States of the U S A afforded to American manufacturers. Thus the development of Empire markets should enable the British manufacturer to increase his output, reduce his costs, and thus to place himself in a better position to meet fierce competition in the foreign market '[2]

It might be legitimate to dispute some of the political morals which were drawn from the thesis of Great Britain's growing de-

[1] There was an absolute decline from 1913 (a peak year), but if 1901 is taken as the base year a better impression is given The following table is from Professor A. J. Sargent, *British Industry and Empire Markets* (E M B. 26th March 1930).

Exports of Manufactures from the United Kingdom to the Empire (1901 100)

Year	*Population of Empire. Index number*	*Exports at Prices of 1900 £ millions*	*Index number*	*Per cent of total exports of manufactures*
1901	100	90 9	100	39·5
1913	109	155 6	171	41 3
1925	114	122 5	135	42 4
1927	115	147 2	162	45 8

'Owing to statistical changes, the figures in the third column are liable to considerable error '

[2] McDougall, E M B 23, p. 27.

pendence upon Empire markets; but the thesis was broadly true. However, it called for a more detailed examination.[1] An analysis by geographical areas would seem at almost every point to support the thesis; an analysis by classes of British industry would emphasize important exceptions to its general validity. Consider first some geographical areas. In 1901 the European market for British industry was almost as large as the whole Empire market, but between 1901 and 1927 the latter grew to double the size of the former.[2] Or contrast the purchasing *bloc* of Australia and New Zealand with the doubly populous purchasing *bloc* comprised by Argentina, Uruguay, Paraguay, and Chile. In 1901 the latter was far less important than the former as a purchaser of British manufactures, it gained ground rapidly between 1901 and 1913; but thereafter its rate of purchasing increase became far slower. In 1927 the people of the two South Pacific Dominions spent £74·2 millions on British manufactures, whereas the people of the four South American Republics spent only £30·3 millions The average Australian or New Zealander bought in 1890 three times as much from Great Britain as the average Argentinian or Chilean bought; in 1901 he bought four times as much, in 1927 he bought more than five times as much. The Empire market in the South Pacific, whether measured by its total purchases or its *per capita* purchases, was a more valuable one than the foreign market in South America; and its value was growing more rapidly. Similar contrasts between imperial and foreign markets were the general rule in other geographical areas of a very different social and economic character. For example, in 1927 the total purchase of British manufactures made by India and Ceylon was three times the total purchase made by the foreign Far East—£84·4 millions compared with £27·8 millions The *per capita* purchases of these two Empire countries were almost five times those of the foreign countries Let us, therefore, praise British subjects and curse foreigners. . . . Yet the position would not appear so simple if one considered the specific kinds of British goods which were in demand. India's purchases of British cottons were diminishing more rapidly than China's purchases, because India's cotton industry, sheltered

[1] See the work of Professor A J. Sargent cited above, considerable use is made of it in this paragraph

[2] In 1901 Europe (excluding Russia) bought British manufactures worth £62,000,000, and its *per capita* purchase was 5*s* 1*d* The Empire's *per capita* purchase was the same (5*s* 1*d*) and its total purchase was £88,000,000

In 1927 Europe (excluding Russia) bought £120,000,000 of British manufactures and its *per capita* purchase was 8*s* 6*d* The Empire's *per capita* purchase in that year was 12*s* 6*d* and its total purchase was £281,000,000

by a recently erected tariff, was increasing at a more rapid rate. Canada's purchases were diminishing for a similar reason. And when one considered all branches of the British textile industry, which normally accounted for half the export of British manufactures, it became apparent that the Empire, rather than foreign countries, was responsible for the diminished sales overseas[1] On the other hand, in the iron and steel and engineering section of British industry, which normally accounted for about a third of the export of British manufactures, the support of the Empire's markets was becoming increasingly important. There was, indeed, even within the Empire, an absolute, though not a proportionate, slackening of demand for iron and steel, but in other classes and sub-classes there were notable and sometimes remarkable increases[2] In the section as a whole there was between 1913 and 1927 a decline of 27 per cent. in British exports, but this decline was due entirely to the diminished purchases of foreign countries What, then, was the proper conclusion to draw from this more detailed analysis? Different sections of British industry would draw different conclusions from it Nor would their conclusions apply impartially to all the Empire's countries. Canada would not be very popular with any section of British industry. India would be unpopular with the cotton manufacturers, but popular with the machine manufacturers. Australia and New Zealand would win the general approval of most sections.

. . .

Political propagandists, however, could not be expected to discriminate in this pernickety fashion. They took the generally proved thesis of the growing dependence of British industry upon Empire markets and made a resounding slogan out of it. The Beaverbrook press launched a 'crusade' for 'Empire Free Trade'—a policy which had never during the past half-century appeared even on the remotest

[1] *Percentage of total United Kingdom exports of Textiles going to Empire countries*

	1913	*1925*	*1927*
Cotton yarns and piece goods, &c	30 8	33 6	27 2
Wooltops, yarns, and manufactures	8 7	9 8	10 3
Miscellaneous textiles	4 4	4 9	4 3
Apparel .	5 1	4 0	4 0
Total . . .	49 0	52 3	45 8
Value (without price adjustment)	£201 M	£309 M	£253 M

[2] *Iron and Steel and Engineering section Percentage of total United Kingdom exports going to Empire countries*

	1913	*1927*
Iron and steel .	48 1	56 5
Machinery . .	32·5	48 2
Vehicles, &c	38 2	55 2

horizon of political possibility. But, although 'Empire Free Trade' was completely visionary as a political objective, it was a very useful political screen. 'Free Trade' still had propaganda value, and so had 'Empire'; a daring if dishonest combination of these two symbols offered to the champions of protection and preference a popular banner to wave before the vulgar. Alas for the polite economic deportment of a vanishing age! Alas for its *bourgeois* sociability, its English rationality! These virtues were becoming outmoded. The pushing twentieth-century nations conformed to a far different pattern of behaviour. Insular internationalist England clung pathetically to proprieties which were discarded abroad and increasingly derided at home. A minister in Great Britain's labour government, Mr. W. Graham, made patient pilgrimages to Geneva to plead for a tariff truce. The European nations would not listen to him. The United States of America met the first onset of the depression with a savage outburst of protectionist egoism. In Canada there was a transient gleam of liberality; the Dunning tariff of 1930 pointed the way to an un-egotistical version of preference in a context of lowered trade-barriers. But the Canadian electorate was swept by a retaliatory passion against the United States and a protectionist resentment against butter-exporting New Zealand.[1] It returned to power an overwhelming conservative majority led by Mr. R. B. Bennett. Mr. Bennett piled the Canadian trade-barriers sky-high. Having done this, he sailed to England to preach imperial preference at the Imperial Conference. He put his peroration first. He envisaged a world which was looking to the British Commonwealth 'for guidance, for help, for a lead'.[2] Then he put his proposition. It meant the piling up of new barriers against the trade of the world. 'I offer', he declared, 'to the Mother Country, and to all other parts of the Empire, a preference in the Canadian market in exchange for a like preference in theirs, based upon the addition of a ten per centum increase in prevailing general tariffs, or upon tariffs yet to be created.'[3]

[1] There is an interesting interaction between the anti-United States and the anti-New Zealand protectionism of the Canadian conservative party. Lowered prices for wheat stimulated dairy production in Canada. The Hawley-Smoot tariff of the United States restricted the entry of Canadian cream. Canadian farmers, therefore, agitated against the entry of New Zealand butter, with which, chiefly owing to climatic conditions, they were unable to compete efficiently. The Canadian Government terminated the trade treaty of 1926 and raised the duty on New Zealand butter from 1 cent per lb. to 4 cents, and then (12th October 1930) to 8 cents per lb. A new trade agreement of 24th May 1932 reduced the duty to 5 cents, as against 8 cents on British and 14 cents on foreign butter. But the 5 cents duty was sufficient protection.

[2] Cmd. 3718 of 1930, p. 31. [3] Ibid., p. 34.

A British minister publicly declared that Mr. Bennett's offer was 'humbug'.[1] The description, though true, was tactless. But tempers were too frayed for tact. Mr. Bennett encountered at the Imperial Conference a Lancashire Chancellor of the Exchequer fighting bitterly in the last ditch for the principle of free trade. The press joined in the fight. The *Manchester Guardian* was insufferably exact and rational; the *Observer* was lumpishly satirical,[2] the Empire Free-Traders screamed. They, however, received even shorter shrift than the genuine free-traders did from Mr Bennett and the other overseas statesmen [3] The conference ended in a stalemate. Nevertheless, the delegates separated with a feeling that change was imminent They had agreed to meet each other soon again at Ottawa They had taken up their respective bargaining positions. The leader of Australia's labour government had resubmitted his predecessor's scheme of agricultural preference—the British farmer first, the Empire farmer second, and the foreign farmer third.[4] The labour government of the United Kingdom had proved itself willing to examine quota and import-board schemes [5] These schemes, it was true, might have a more shattering effect upon freedom of trade than any protective or preferential tariff could have, but they did not conflict with the letter of the old liberal doctrine, and they seemed somehow to express the spirit of the new socialistic doctrine. Mr. Bennett left Great Britain in optimistic mood; he believed that his offer would

[1] *J P E*, vol xii, pp 24 ff It later transpired that the Canadian *quid pro quo* for a change of British fiscal policy was even smaller than had been at first understood the 10 per cent increased tariff against foreigners would not be an absolute 10 per cent increased preference to Great Britain it would be merely an additional tenth of the existing duties

[2] *Observer*, 26th October 1930 'The British Empire is abandoned to economic disintegration and political nullity through the theories of the Chancellor of the Exchequer No matter, a theory is intact'

[3] Cmd. 3718, p. 34. 'This proposed preference should not be considered as a step to Empire Free Trade In our opinion, Empire Free Trade is neither desirable nor possible' On this Mr. Havenga agreed with Mr Bennett Ibid, p 69

[4] Ibid, p 15 Mr Scullin 'Just as in Australia and all the other Dominions we must give our first preference to local industries, and our second to Great Britain and the Dominions, so in considering the market for Empire agriculture in Great Britain, Australia, and I have no doubt the other Dominions, would naturally expect to see the British farmer given the first place, with, where necessary, advantage over the Dominions, but we hope to be given—again where necessary—some advantage over foreign countries' For Mr Bruce's statement of this principle in 1923 see above, p 141.

[5] Cmd 3718, pp 45–8 A committee reported on the possibility of quota systems (notably for wheat, but also for canned fruit, fresh fruit, and dairy produce). It also considered Import Boards and bulk purchase. Its report was unfriendly to all these schemes, but this did not close the door which the British government had opened for their consideration.

be accepted at Ottawa. Mr Scullin declared that the Conference marked 'a wonderful step forward'. Mr. Forbes implored his fellow New Zealanders not to 'bluster and heckle and scold' Great Britain. He believed that the British people bothered themselves too much with theoretical questions, but they were sound at heart they would soon learn to judge policies by their results, as the practical New Zealanders did. New Zealand had passed the ball to Great Britain; before long all the nations of the British Commonwealth would be playing the game of trade together like a well-co-ordinated Rugby team [1]

Within a few months all the nations of the British Commonwealth were struggling to keep themselves alive in the economic blizzard. In that struggle Great Britain jettisoned the old theory of commercial policy to which she had so persistently clung. Her response to the challenge of extreme economic adversity was not in any large degree directly conditioned by the theory of imperial preference, much of what she did was an almost reflex action which found its theory afterwards But some of this reflex action flowed spontaneously into channels which had been already cut by the propaganda for imperial preference. The election of 1931 returned a 'national government' with a 'doctor's mandate'. In November 1931 this government pushed through parliament the Abnormal Importations Act. In February 1932 parliament accepted the Import Duties Act This Act established a protectionist Great Britain [2] By exempting Empire countries from the general 10 per cent. *ad valorem* duty, it widely extended the area of United Kingdom preference to the Empire. But the exemption was intended to be tentative, a preparation for bargaining at Ottawa. The Import Duties Act also armed the British government with the power to drive close bargains with foreign countries. It established a tariff system which conformed, or seemed to conform, to the three-line model which had long been familiar to

[1] See Cmd. 3718, pp 245, 246 *Manchester Guardian*, 27th October 1938 *J P E*, vol xii, pp 1013 ff But see also ibid, p 1052 Mr. Havenga in the South African parliament struck a different note He said that Great Britain had made it clear that her external trade was of far more value to her than her trade with the Dominions

[2] Its chief provisions were (1) A general 10 per cent *ad valorem* tariff, with certain exemptions (e g wheat in grain, meat, animals, cotton, wool, flax, hides, rubber, iron ore, and other raw materials) (2) Provision for the imposition by Treasury Order on the recommendation of the Import Duties Advisory Committee, of higher duties on (*a*) luxury goods, (*b*) goods produced or likely to be produced in reasonable time and quantity in Great Britain (3) Provision for remission or relaxation of duty (saving imperial preference) in favour of specific countries This gave bargaining power for treaty-making (4) Provision for retaliatory action by the raising of duties up to 100 per cent

the Dominions.[1] In short, within a few months Great Britain definitely committed herself to those principles which the Dominions had been urging upon her for half a century. In addition, she followed the suggestions which successive Australian Prime Ministers had made concerning her agricultural policy. In recent years her market had become the world's dumping ground, the position of her farmers, particularly her live-stock farmers, was acute She now began to set in motion a policy of agricultural revival which might some day turn out to be far more than the Australians had bargained for. But this anxiety lay the other side of the Ottawa Conference. In July 1932 the Dominion delegations gathered at Ottawa in great need and in high hope. It seemed that Mr. Forbes s prophecy had come true, it seemed that Great Britain had at last consented to join the team and play the game of trade by Dominion rules.

The Ottawa Conference damped some of the enthusiasm. Perhaps the team spirit was imperfect. There is plenty of sneering gossip to this effect. The future historian may sift this gossip if he thinks it worth his while Probably it will never be worth anybody's while The published records of the Conference, though they are very scanty, sufficiently reveal its imperfections. One not-infrequent weakness was a lack of charity. The most persistent and serious weakness was a lack of clarity.

Many people had long desired a conference like this gathering at Ottawa; but nobody had ever imagined the circumstances in which at last it met The enthusiasts had envisaged a gathering of flourishing nations triumphantly intent upon a task of economic integration, instead, it was a gathering of anxious and suffering nations, desperately intent upon a task of economic salvage. The note of desperate need made itself heard in many speeches Mr Bruce told the story of Australia's struggles how she had cut the basic wage by 30 per cent., cut her imports to one-quarter of their value in prosperity days, raised the volume of her exports by one-third, skimped and sweated to defend her solvency, punished her own people and the people of other countries. Australia had had no choice. Yet what she had done was insufficient. She should do more; but to do more would bring her to the edge of social and economic disaster. From the other Dominions came similar tales of struggle and privation. From

[1] The three lines of the British tariff—preferential line, treaty line, and general line—in practice resolved themselves into two because treaty rates were generalized among practically all nations by the operation of the m.f.n. clause Dominion tariffs also had very seldom been in practice three-line ones Australia, for example, had never used her intermediate tariff, and had let it lapse. For its revival, see below, pp. 249–50

India came the most harrowing tale of all; for there the losses of producers and the starvation of government services cut into standards of living which were already on the extreme margin of wretchedness. The Indian cultivator found himself compelled either to eat less of the scanty food which he grew, or to sell part of his little property, or to get further into debt, he did all three things. What was the cause of this misery? The Indian cultivator knew the cause well enough For the things which he had to sell he received as likely as not a bare half of what he had been accustomed to receive before the War; for the things which he had to buy he was paying a great deal more.[1] There was no basically different economic cause for the plight of farmers in Canada or New Zealand or Australia, or, for that matter, of those in Argentina or Hungary or Great Britain or the United States. A 'calamitous fall in commodity prices'[2] was at the root of the troubles of them all. The responsible ministers who were conferring at Ottawa were unanimous about that.

It might have been expected that this unanimity would have defined their problem for them. That problem, according to their own diagnosis, was to find means of raising commodity prices in relation to the prices of manufactured goods. Nobody dared to suggest that the gap might be narrowed by lowering the prices of manufactured goods, which all the Dominions had driven upwards by increasing doses of tariff protection. The gap must rather be narrowed (so everybody agreed) by raising the price level for primary products But what had this problem of price levels to do with imperial preference? If price levels were the real problem, did not preferences become rather irrelevant? Sir Henry Strakosch, speaking for India, declared that an extension of preferences, without a raising of prices, would do no good at all either to India or to the United Kingdom. 'No amount of preference in favour of United Kingdom goods', he said, 'could in these circumstances lead to purchases by the Dominions and India of United Kingdom goods beyond the absolutely indispensable minimum.' If prices continued to fall, he added, the question of preference would become still more irrelevant.[3] Supposing the Conference had made this its main line of thought? It would have been departing from its agenda and deserting the channel of emotions and ideas which had

[1] According to Sir George Schuster his fixed charges were also higher than they were in 1914 The following indicate some of the price falls of things he sold (1914 100) Cereals 66, raw jute 45, hides and skins 52, cotton 89 As for the rises of things he bought, cotton piece goods were 127 and kerosene 161

[2] Mr. Bennett's phrase—Cmd 4175, p 130.

[3] Ibid, p 165

been cut by half a century of propaganda. Not even the emergency in which it met had prepared it for such a change of direction. There was, for one thing, no unanimity of doctrine about the method of raising commodity prices, Indians and Australians placed a greater emphasis on monetary policy than Canadians and Englishmen were willing to accept. There were also some direct clashes of interest South Africa, the world's greatest gold-producing country, was still unrepentant in its devotion to the strict gold standard. About the problem of the price level no clear pattern of thought had as yet taken shape, but there was a very old pattern of thought about trade. It was this pattern which moulded the work of the anxious and confused statesmen. To this pattern they subordinated even their plans for a restoration of the price level 'Our primary object', said Mr. Bruce, 'is the promotion of intra-Empire trade and the consummation of a closer economic union between the British Nations'[1]

No other definition of the purpose of the Conference would have been acceptable to the veteran champions of imperial preference. Yet all the statesmen knew that the economic welfare of the peoples of the Empire was closely interwoven with the economic welfare of the world community Moreover, they had become aware of changes in popular diction, among the new generation 'world community' was a favourite phrase, 'imperial right' was out of fashion. They conformed to the new fashion, by natural imitation rather than by a conscious effort They became mealy-mouthed They might be tough enough to snatch for themselves sectional, national, or imperial advantages for which other peoples would have to pay, but they were not tough enough to confess to themselves that this was their purpose. So they told each other that the eyes of the world were upon them 'in hope and expectation' They told the world that they were gathered together in order to give the nations an example of 'unselfish and concerted action'. They would save the Empire by their energy and save the world by their example They protested again and again that the remedies applicable to their own sickness were applicable also to the world's sickness.[2] Some of them appeared

effects upon the economic life of other peoples. Mr. Baldwin pointed out that increased preference might be given 'either by lowering barriers among ourselves or by raising them against others His Majesty's Government in the United Kingdom favoured the first method . . as far as possible.' Alas for that qualifying phrase![3]

[1] Ibid., p. 78 [2] Ibid, pp. 64, 66, 75, 76. [3] Ibid

Mr. Bennett expressed an altruism no whit inferior to Mr. Baldwin's. He too spoke of clearing out the channels of trade within the Empire in order to pump the revivifying stream of commerce through the stagnant pools which had been 'dammed up by the world upheaval'.[1] But Mr. Bennett's plan was in substance the same plan which he had urged in 1930; it was a plan of building dams, not breaking them. He defined it as 'the ideal application of the principle of protection'.[2] In the past, Canada had been able to protect her own manufactures, but she had not been able to protect the natural products which she exported. She now invited Great Britain to shoulder this task. Canada in her turn would compensate Great Britain by penalizing still further Great Britain's foreign competitors in the Canadian market The argument of New Zealand slipped similarly from lofty altruism to unabashed self-interest; there was, declared Mr. Coates, no conflict between the objects of this imperial conference and 'general world interests'; but as a matter of urgency Great Britain ought to institute quota restrictions on the dairy produce, meat, pig products, fruit, and similar commodities sent to her markets by foreigners. Mr. Bruce made the same transition, not by a slip, but by a leap His first speech expressed Australia's high moral purpose, his second speech expressed Australia's 'entirely realistic spirit'[3] He distinguished between those commodities of which the Empire was a net exporter and those other commodities of which the Empire was a net importer. He did not believe that Great Britain could help the situation of the former commodities; producers of wool and of wheat (although Australia would listen with interest to the Canadian proposals with regard to wheat) would have to await an improvement of world markets But special advantages in the British market would be of great value to those Australian producers whose livelihood was bound up with the production of meat, fruit, sugar, base metals, dairy produce, and similar commodities. Some of these producers already enjoyed a preference, they would want it extended Others, who did not yet enjoy a preference, would demand one Others would probably demand more resolute aid than any preference could give In particular, producers of meat and butter might be content with nothing less than 'the adoption of a scheme of restrictions upon imports from outside the Empire'.

The sweetness and light of conference oratory were now fading, the statesmen were giving foreigners a nasty look. Sometimes they gave each other a nasty look. Mr. Bruce bridled at the British suggestion that the preferences granted under the Import Duties Act

[1] Cmd 4175, p 68. [2] Ibid, p 69 [3] Ibid, p 100

were conditional on the grant of new preferences by the Dominions; they were, he said, 'a somewhat tardy response' to the favours which Australia had long since showered upon British industry. In reply to this, Mr. Baldwin bridled just like an old-fashioned English liberal. He waxed eloquent about 'the greatest boon of all', free entry into the British market. The Dominions enjoyed this boon on 90 per cent. of their exports to Great Britain. Since the change of British fiscal policy, foreigners enjoyed it on only 30 per cent of their exports. But the Dominions granted no comparable boon to Great Britain; their preferential mitigations of high-protectionist duties were as often as not of little use to British producers. The argument between Mr. Baldwin and Mr. Bruce became a statistical thrust and counter-thrust. Mr Bruce made play with Great Britain's visible balance of trade, his reproachful figures accused Great Britain of granting unmerited and unrequited favours to Australia's rivals, the Argentinians and the Danes. Mr Baldwin's figures demonstrated that the Dominions had a very favourable visible balance of trade with Great Britain. And what about the £350,000,000 which they spent every year on foreign goods? This argument moved Mr. Havenga to protest. He could not permit South Africa to be classed with the rest of the Dominions She was in a 'peculiar position', with her the United Kingdom had a favourable balance of trade. . [1] The narrow unintelligent wrangle about bi-lateral balance sheets might have gone on for ever. But the English knew that it was folly They were not sufficiently strong-minded to let pass, without a retort, Mr Bruce's complaint of their 'tardy response' to Dominion generosity. But the point which they were most anxious to make was the impossibility of separating Great Britain's trade within the Empire from the world-wide mesh of commerce upon which her economy depended

> 'The United Kingdom Delegation desire also to emphasize to their colleagues', Mr Baldwin said, 'the fact that the United Kingdom is so highly industrialized that it is vital to the physical existence of her people to find adequate markets for her products and that in fact more than half her export trade is taken by foreign countries . . Anything tending to check the foreign exports of the United Kingdom must lessen the purchasing power of her people and so damage the markets on which the Dominions so largely depend for the consumption of their products.'

Even in 1932 India and South Africa readily appreciated this argument; the Indian representatives, in particular, were compelled by

[1] Ibid , pp. 122 ff , 125 ff

their own circumstances to speak repeatedly to the same effect But some years were to pass before the Australians were ready to admit its force, either for the British people or for themselves [1]

The discussions in the full conference had revealed its cross-purposes. Great Britain wanted the Dominions to grant her more effective preferences She hoped that they would do this by reducing their tariffs. The Dominions wanted Great Britain to help their farmers both by increased and extended preferential duties and by quota restrictions upon the produce of foreign farmers. Some of the Dominions were ready to consider reductions in their tariffs; others of them were reluctant to do this. All of them were anxious to see a rise of prices, but they were not all agreed on the method of achieving this. All of them professed a readiness to acquiesce in protection for the hard-pressed farmers of Great Britain, but none of them believed that it would amount to very much in practice. Great Britain and all the Dominions desired to increase the Empire's trade, but Great Britain, South Africa, and India realized that this increase might be paid for too dearly in a loss of foreign trade. Moreover, different delegations wanted to increase Empire trade for different reasons Some wanted to increase it just because it was trade. Others wanted to increase it in order to tighten the bonds which made the Empire a political force After all, it had been part of the faith of Joseph Chamberlain and Alfred Deakin and many other leaders that imperial preference was the road to imperial unity. Mr Baldwin and Mr Bruce now reaffirmed this faith. 'The real importance of Ottawa', Mr Baldwin said, 'lies in the fact that it marks the point where two roads diverge, the one leading to the development of purely national interests, the other to closer imperial unity.'[2]

. . . .

It is not surprising that these very diverse elements of purpose made some unexpected compounds. An example is contained in the speech of Mr. Neville Chamberlain, which became the basis of the report of the committee on monetary and financial questions.[3] Mr. Chamberlain agreed with the Canadian and South African delegates that the ultimate aim of monetary policy should be the restoration of a satisfactory international standard, he agreed with the Indians and Australians that 'to restore stable exchanges without a tolerable level of prices would be a mockery'. He agreed that the

[1] See below, p 256, for their acceptance of the argument in 1938.
[2] Cmd 4175, p 72
[3] Ibid, pp 166 ff Cmd 4174, pp 11–14.

problem of an international standard ought to be left to the World Economic Conference, he agreed that Great Britain ought immediately to lead the nations of the Commonwealth in an attack on low prices. But he did not agree that monetary action alone could achieve everything that some Dominion statesmen (Mr. Bruce for example) expected it to achieve. His theoretical doubts were reinforced by practical considerations of United Kingdom interest. Prominent in his mind was a consciousness of the plight of British agriculture, of the glut of agricultural produce which had made the British market everybody's dumping ground He therefore injected into his proposals for raising the price level the proposals for quantitative restriction of United Kingdom imports which the New Zealanders and Australians had put forward. But he gave to these proposals an unexpected and unwelcome twist. The price level must be attacked not only by an expansion of money and credit, but by a restriction of commodities—and the Dominions must shoulder their share of the burden So the quota proposals of the Australians and New Zealanders came back on them like a boomerang They had suggested that Great Britain should strengthen their opportunities in her market by restricting the market opportunities of foreigners Mr. Chamberlain, gliding back into the subject via the price level, and by the hidden channel of English agricultural protectionism, proposed that restriction should apply impartially to all sources of supply And he tried to put upon the Dominions themselves the thankless task of regulating the flow of their produce into Great Britain It was a proposal which had been hatched before the British delegation arrived in Canada [1] For the time being, the experiment was to be confined to meat In the years which followed, plans for extending its scope caused scandalized protest in the Dominions. In its actual application it never inflicted upon them any substantial harm, yet, more than any other factor, it contributed to a revision of the optimistic forecasts which the vision of imperial preference had once aroused among the primary producers of the Empire

The conclusions of the Ottawa conference with regard to trade are contained in some short general resolutions or statements, and in fifteen separate trade agreements. The United Kingdom was a party to eight of these. The most important of the general resolutions on which the trade agreements were professedly, though not always actually based, ran as follows.

'That by the lowering or removal of barriers among themselves

[1] See the Rt Hon J S Coates, *A Butter Quota or a Free Market* (Wellington, 1933), p 7 'They came to the conference prepared in detail for this approach'

provided for by these Agreements, the flow of trade between the various countries of the Empire will be facilitated, and that by the consequent increase of purchasing power of their peoples, the trade of the world will also be stimulated and increased '[1]

By this argument the governments of the Commonwealth claimed that imperial preference was doing a good turn, not only to themselves, but to foreigners. They therefore thought it proper to assert once again that imperial preference overruled the principle of trade impartiality contained in most-favoured-nation agreements; and they declared their resolution as individual nations to free themselves from any trade treaties which appeared inconsistent with the rule of imperial preference Now, if this argument and this practice were proper for the preferentially trading nations of the British Commonwealth, were they not equally proper for other preferentially trading groups? Ought not the nations of the Commonwealth to permit, even to welcome, the formation of groups similar to their own group? They would not accept this reasoning. What was sauce for their own goose was not sauce for the other fellow's gander. They warned the Danubian States that they would not be permitted to copy the British Empire's much-advertised recipe for 'clearing out the channels of trade' They passed a general resolution which denied the right of other countries to overrule their most-favoured-nation obligations by forming among themselves areas of preferentially trading neighbourhood [2] Like the unjust steward of the Gospel parable, the British Empire insisted on collecting from others the debt of which it was itself quit

To what extent were their own agreements really calculated to stimulate the flow of trade among themselves, and thereafter to stimulate the flow of world trade? It is impossible here to survey them in detail,[3] it must suffice to consider broadly the pledges which Great Britain made to the several overseas governments and those which they severally made to her. On the British side it was a matter of principle that all the Dominions must be treated alike. Some of them might reap particular benefits owing to the particular importance for their economic well-being of this or that commodity; but no single member of the Commonwealth could hope to obtain—even if it deserved to do so—an explicit preferential advantage over another member. Great Britain, therefore, repeated the same

[1] Cmd 4174, p 10
[2] Ibid, p 11
[3] For a comprehensive contemporaneous effort in this direction see *The Economist, Ottawa Supplement,* 22nd October 1932

general pledges in each of the separate agreements which she signed.

She first of all pledged herself to continue, during the currency of the agreements, her 'greatest boon' to Dominion producers—the boon of free entry into her markets. It had long been their custom to belittle the boon because it was not also an exclusive privilege Since the passing of the Import Duties Act, it had become an exclusive privilege. But hard on the heels of privilege came insecurity; the duration of the Ottawa agreements was for five years only, at the end of that time Great Britain would be free to rescind the boon, or perhaps to exact a higher price for its continuance For some commodities she granted the Dominions an even shorter term of security 'As regards Eggs, Poultry, Butter, Cheese and other Milk products', she limited her guarantee of free entry to 'three years certain'. After that period she reserved to herself the right either to impose a duty on Dominion produce while retaining preferential margins, or to introduce, after consultation, a system of quantitative regulation to which Dominion producers, no less than foreign ones, would have to conform [1] But for the present the Dominions continued to enjoy the 'greatest boon', and to congratulate themselves that foreigners were excluded from it [2]

Great Britain also promised the Dominions to increase the value of their exclusive privilege by imposing further penalties against their foreign competitors According to *The Economist*, this pledge affected £79,000,000 of Great Britain's import trade It affected twenty-five separate commodities, which were enumerated in one agreement or another: no Empire country was interested in all these commodities, India was interested in only five of them Sometimes the extension of preference took the form of increasing a duty which already existed, sometimes it took the form of imposing an entirely new duty. There were seven instances of the latter procedure. three of these—the new duties on wheat in grain, unwrought copper, and linseed—were of considerable significance. But their precise significance was not always clear. It was the Canadians who had asked for a duty on foreign wheat, the Australians were sceptical about its value. It certainly could not benefit Empire wheat producers by creating a differential price in the British market (the British government explicitly safeguarded itself against this contingency) and it might intensify the competition which they would have to meet in

[1] See Schedule A to the Canadian, Australian, and New Zealand agreements

[2] See the *The Economist, Ottawa Supplement*, p 2, for table calculating the amount of trade affected by this undertaking

other markets. The Canadian delegation nevertheless believed that it would help the prairies to drive some of their competitors out of the wheat business.[1]

Great Britain also pledged herself not to reduce, except with the consent of the overseas governments, the existing 10 per cent *ad valorem* duty on specified lists of foreign goods. *The Economist* calculated that these lists comprised imports to the value of £101,000,000, of which the Dominions in 1932 were supplying about one-quarter. Great Britain, therefore, gave the Dominions a substantial measure of secure possession in their new privileges at the cost of alienating part of her fiscal freedom in practice, this self-limitation probably had little effect upon her policy.

The principle of quantitative regulation of imports appeared in Great Britain's various undertakings with regard to meat. Here there was considerable diversity of interest amongst the Dominions, Canada was chiefly concerned with bacon and hams, New Zealand with mutton and lamb, Australia with mutton and lamb and beef. The United Kingdom granted to Canada free entry of her bacon and hams, if their quality were satisfactory, up to a maximum of 2,500,000 cwt per annum. This figure (some people said afterwards that it was due to a clerical slip) permitted a tenfold expansion of the Canadian export to Great Britain, it was far higher than anything which Canada was to approach for many years to come The New Zealanders, too, were given some encouragement to breed pigs, they were promised a reasonable share in the expansion of home and Empire supplies 'made possible by the reduction of foreign imports' The principle of diverting business from foreigners to British subjects

[1] Canadian experts thought it both vital for Canada, and possible for her, to maintain a wheat export of about 200,000,000 bushels per year (See D A MacGibbon, *The Future of Canadian Export Trade in Wheat*, Royal Canadian Institute, vol xix, supplement) They argued that their competitors in the export trade, notably the Argentine and the United States, had proportionately more agricultural areas which could be switched to alternative production Those countries, therefore, were more likely to go out of production under pressure A British duty on foreign wheat, at the rate of 6 cents a bushel, would make no difference to the price which the Canadian farmer received, but its backward incidence would fall with some weight on the farmers of Argentina and the U S The Canadians would secure a larger share of the British market, in continental markets the high protective duties were in effect preferential ones in Canada's favour, because of the desired high quality of her hard milling wheat *This elaborate economic argument failed to convince large numbers of* well-informed people, both outside Canada and inside it But in 1932 there was also a political reason for the Canadian attitude Mr Bennett wanted to be able to say to the Western provinces that he had done something for them And there were habits of thought formed in the Laurier and Chamberlain period As late as 1938 resolutions in favour of the wheat preference passed by the wheat pools of the prairie provinces testified to the persistence of these habits of thought.

became interlocked with the emergency measures for raising prices by stinting the market. This interlocking is best illustrated by a declaration appended to the United Kingdom-Australian agreement. 'The policy of His Majesty's Government in the United Kingdom', the declaration said, '. . . is, first to secure the development of home production, and, secondly, to give to the Dominions an expanding share of imports into the United Kingdom.' In order to achieve this, the British government undertook to cut progressively the quantities of foreign frozen meat allowed to enter the United Kingdom By June 1934 the amount of foreign frozen mutton and lamb and beef would be reduced to 65 per cent of the quantity which had entered during the twelve months ended 30th June 1932. The quantity of chilled foreign beef (the southern Dominions were still only in the experimental stage of chilling for export) would be stabilized at the 1931–2 figure The United Kingdom undertook at the same time to impose no restriction on the importation of meat from Australia before July 1934 Australia, however, made some promises of regulating supply: she would in the year 1933 limit the export of frozen mutton and lamb to the amount exported during the twelve months ended June 1932, and she would 'use her best endeavours' to prevent the export of frozen beef from exceeding by more than 10 per cent. its volume during the same period. The New Zealanders also undertook, in return for the same favours, to apply the same policy of regulation Both the Australians and the New Zealanders had cause to be pleased with these agreements about meat. But their pleasure was tempered with misgiving. The agreements were for a period of less than two years. If the governments could not agree during 1933 on a more permanent policy, the United Kingdom would recover a good deal of its freedom. Certainly, it was pledged to keep in force the restrictions on foreign supply at the figure for June 1934. But it would also be free to impose a check on the expansion of Dominion supply The formula, 'home producer first, Empire producer second, foreign producer third', did not contain quite the perfect magic which the Dominion statesmen had once imagined. Everything depended on the precise distance between the first, second, and third places. What the Dominions wanted was a narrow margin of favour between first and second places and a wide and indefinitely expansible margin between second and third places. They had no guarantee that British policy would develop just as they wished.

The United Kingdom, in its eight agreements, made other undertakings. There were pledges with regard to tobacco which concerned

India, Canada, South Africa, and Southern Rhodesia; there were pledges with regard to coffee in favour of India and Southern Rhodesia, there was a promise, vaguely defined, to settle according to Canadian wishes the old controversy about the entry of live Canadian cattle. The United Kingdom also promised Canada to deal sternly with any 'frustrating' country; this was a prelude to the denunciation of its trade agreement with Soviet Russia. And it promised all the Dominions that the non-self-governing Colonies and Protectorates would (with some exceptions in southern Africa) extend to them the same preferences which they extended to other parts of the Empire But the question of colonial economic policy must be deferred to a later chapter.

What did the Dominions promise in return? How willing did they prove themselves to lower the barriers which impeded Empire trade and world trade? And how willing did Great Britain prove herself to reject those special favours which she could only gain at the cost of sacrificing the ideals of freer trade which she had professed? The tariffs of the four most important Dominions had been moving upwards during the ten years preceding the Ottawa Conference, the tariffs of Canada and Australia had moved to high protectionist levels. Since 1930 crisis legislation had piled these barriers still higher. Great Britain professed the ideal of a general lowering of barriers, but in actual negotiation she proved herself ready to sacrifice this ideal, if only she could get some passages knocked through the barriers for the exclusive benefit of her own manufacturers She was even willing that the barriers should be built still higher, whenever this was the only means of securing for her own goods the passages which she wanted. This intention is apparent in the particular promises which she extracted from one Dominion after another; the detailed proof of it is in the schedules. The South African government promised to grant to certain classes of British goods fixed margins of preference over the same classes of foreign goods; as some of the goods specified were duty-free and as the duties on others were less than the prescribed preferential margins, this promise was an undertaking to raise the tariff. The South African government also promised to make definite additions to the duties on other classes of foreign goods, specified in another schedule. The Canadian government attached to its agreement with the United Kingdom a schedule of new duties which it proposed to submit to parliament. This schedule enlarged the range of preferences which British producers would immediately enjoy, the preferences were created both by reducing duties on British goods and by increasing duties on foreign

goods.[1] The New Zealand government promised some resolute reductions of duty on certain classes of British goods and committed itself to no specific increases of duty on foreign goods; however, it pledged itself not to reduce the margins of preference below the prevailing rate of 20 per cent., thereby committing itself not to reduce its general tariff over a wide range of commodities. The Australian government pledged itself to minimum margins of preference which varied in extent according to the rate of duty upon British goods. This pledge, as the tariff schedule of 14th October demonstrated, meant in practice an immediate raising of barriers against the foreigner. In short, the specific pledges of the Dominions to Great Britain, like the specific pledges of Great Britain to the Dominions, increased those obstacles to world trade which Mr. Baldwin had so eloquently deplored.

Nevertheless, the British government hoped that the Ottawa agreements would, in the long run, bring about a lowering of Dominion barriers. It grounded its faith on certain general articles which appeared in its agreements with Canada, Australia, and New Zealand. The first of these articles recorded an undertaking by each of these governments that 'protection by tariffs shall be afforded against United Kingdom products only to those industries which are reasonably assured of sound opportunities for success'. If this pledge were kept, it might well help to bring to a close the period of soaring Dominion tariffs, which in the past decade had protected many sickly and expensive industries. But how would the Dominions interpret the pledge? What was the criterion of healthy growth? The second general article showed how hard it would be to discover a criterion which possessed any objective validity. The article pledged each of the three Dominion governments to base its tariff on the principle that

> 'protective duties shall not exceed such a level as will give United Kingdom producers full opportunities of reasonable competition on the basis of the relative cost of economical and efficient production, provided that in the application of such principle special consideration shall be given to the case of industries not fully established'.

The principle contained a contradiction. American experience had already proved that competition and the equalization of costs were contradictories.[2] Apart from the almost insuperable difficulty

[1] *The Economist, Ottawa Supplement*, enumerated 132 instances of reduced British duty and 83 instances of increased duty against foreigners

[2] See Taussig, *Principles of Economics* (Macmillan, 3rd edition, 1929), pp. 516–17. 'If the principle of equalizing cost were consistently carried out, we should exert

of discovering what the differential costs actually were, the Americans, guided in their tariff revisions by a clause similar to that embodied in the Ottawa agreements, had almost invariably revised their tariff upwards Would the experience of the Dominions prove to be a different one? That would depend upon circumstances. The New Zealand government had already given proof of its willingness to reduce, not only some of the emergency barriers which it had recently built, but also some of the earlier ordinary barriers. In Australia, the sober educative work of the Tariff Board had created in wide circles of the business community a more critical attitude towards tariff increases; a growing section of the people was demanding a policy of tariff reduction, and this section was represented in the government which held power. The Ottawa agreement pledged Australia to entrust to the Tariff Board a comprehensive review of existing protective duties, and pledged the Australian government, so soon as it had received the report and recommendation of the Tariff Board, to put before parliament proposals of tariff revision based upon the principles which the government had affirmed in its agreement with the United Kingdom Moreover, the Australian government pledged itself not to increase duties on British goods to an amount in excess of the recommendation of the Tariff Board. It also undertook to give to British producers the right of audience before the Tariff Board. Obviously, the government of the United Kingdom was pinning upon the Tariff Board its hopes for a future reduction of Australian trade barriers It hoped also that Canada might follow the same encouraging path. Canada had as yet no Tariff Board, though an Act for the establishment of such a body was already on the statute book. The Canadian government now undertook to establish its Tariff Board forthwith, it pledged itself thereafter to make exactly the same use of the Board and to grant to British producers exactly the same rights of audience as those which were provided for in the agreement between the United Kingdom and Australia. Would the tariff boards of the two countries do their work in a similar spirit and with similar rules of procedure and canons of judgement? What sense would they make of the

ourselves most strenuously to promote by high duties the domestic production of an article according as we gain most by its importation and lose most by its domestic production' Cf *The Economist, Ottawa Supplement*, p 17, discussing the compensatory tariff 'While it appears to be a limiting principle, it is not limiting either in theory or practice, for if carried out strictly it would put an end to all foreign trade Clearly, if a duty is put on equal to this difference, there will be no benefit from foreign trade, which is only advantageous because you can buy abroad cheaper than you can at home, and *vice versa*, as regards exports.'

obscure Ottawa formula which was their guide? Would both of them, or only one of them, or neither of them set in motion the difficult processes of tariff reduction? The Ottawa agreements contained the answer to none of these questions. The British government did not know the answer. Its bewildered leaders had not foreseen what they would do at Ottawa; they had gone thither in a spirit of high moral purpose and acquisitiveness, wishing the whole world well, and intending to do well for their own country. They had succeeded in securing additional favours from the Dominions, and they had granted additional favours to the Dominions In order to do this, they had themselves built, and had encouraged the Dominions to build, additional barriers against the trade of other nations. This, though contrary to their oratorical professions, was in no way contrary to their theory of sheltered imperial markets; yet it was not precisely what they had hoped for. They had wanted to lower Dominion tariffs, if not their own Perhaps in the near future the tariff boards would play the part of *Deus ex machina.* Perhaps they would set in motion that harmonious magic of altruism and self-interest which in the hurried strident bargaining of July 1932 had eluded the hard-pressed statesmen.

It would be unjust and profoundly misleading not to keep constantly in mind the crisis atmosphere in which the Ottawa Conference met In examining the manner in which the nations of the British Commonwealth concerted their answers to the onset of adversity, it is necessary and just to remember the brutal egoism of the Hawley-Smoot tariff and the damage done by the tariffs, quotas, and exchange controls of the French, Italians, Germans, and most of the other nations. The Ottawa Conference was the response of Great Britain and the Dominions to unprecedented economic calamity. But it was something more. It was the triumph of a theory of Empire which had been for half a century the great cause for which many ardent spirits fought. It was the triumph of Joseph Chamberlain and Alfred Deakin. In the House of Commons at Ottawa Mr. Bennett remembered those who had sown what he had reaped; in proclaiming 'the beginning of a new and greater Empire', he did not forget the 'half century of endeavour' which had made this beginning possible.[1] But neither did Mr. Bennett's opponents forget. After all, it was not everybody who held the Birmingham School's theory of Empire; nor did every believer in the Commonwealth of Nations envisage its future exactly as Joseph Chamberlain had envisaged it. In England the Manchester School, though worsted by the Birmingham School,

[1] *J.P E*, vol. xiii, p. 941.

criticized and doubted, as of old, the labour party attacked the agreements, some liberal members seceded from the National Government. In Australia the results of Ottawa were acclaimed by the Prime Minister as 'a much-needed lead to the world'; they were denounced by a high-protectionist labour party as 'the greatest ramp ever attempted on behalf of manufacturers in the United Kingdom', and they were dismissed by the low-protectionist country party as 'nothing much to boast about'.[1] It was the same everywhere in the British Commonwealth, judgement on the achievements of Ottawa followed party lines. There was a far greater unity of foreign opinion Reluctantly or joyfully, according to their several situations, theories, or sentiments, the commentators recognized in the Ottawa agreements an important landmark on the road which was leading the world away from the Great Commercial Republic of the nineteenth century towards a future of separate and opposed economic constellations. Only the future would show whether these commentators were judging too hastily. for the present, the fears of those who believed in international collaboration corroborated the defiances and hopes of those who trusted to national self-defence and aggrandizement. A Danish writer feared that the results of Ottawa would compel Denmark to revise her policy, she must prepare for the time when a 'highly industrialized Germany is again forced to buy good and cheap food'.[2] A German nationalist implored his country to take full advantage of the difficulties which Ottawa was bound to create for the Scandinavian peoples.[3] Angry voices in South America demanded a combined economic front of the South American Republics and the United States against the Ottawa combination.[4] The idea was a shadowy one, but the anger was real. Meanwhile, the prime ministers of the British Commonwealth continued to praise themselves for giving the world a lead

IV

Imperial Self-Insufficiency, 1932–8

What were the economic effects of the Ottawa Conference? Simple-minded persons sometimes imagine that a sufficient answer to this

[1] *J P.E*, vol xiv, pp 538, 543, 545
[2] *Dagens Nyheden*, quoted *Financial News*, 22nd August 1932.
[3] *Borsen Zeitung*, 25th September 1932
[4] *The Times*, 9th August 1932

question is contained in tables showing the changing percentages of intra-Empire and Empire-foreign trade—in such a table, for example, as the following one:

British Imports

	Percentage from whole Empire	*Percentage from Dominions (excluding I.F.S.), India, and Southern Rhodesia*
1929	29.4	19.7
1931	28.7	19.4
1932	35.3	24.9
1936	39.1	29.2

British Exports

	Percentage to whole Empire	*Percentage to Dominions (excluding I.F.S.), India, and Southern Rhodesia*
1929	44.5	30.9
1931	43.8	26.1
1932	45.4	27.2
1936	49.2	33.3

But did the Ottawa agreements cause this increase in the proportion of intra-Empire trade? The most pronounced increase occurred before the Ottawa conference met. After the conference, there occurred changes in the direction of trade which the conference most obviously did not cause. For example, Japanese-Australian trade increased at a more rapid rate than British-Australian trade. British trade with the Scandinavian and Baltic countries increased at a more rapid rate than British trade with Empire countries. As for the increase in the percentage of British trade with Empire countries, other factors besides the Ottawa agreements played a part in causing it. New policies of currency and credit were operating simultaneously with the new policies of tariff preference, the sterling area overlapped the preferential circle. The tariff policy and the trade-treaty policy of the United Kingdom had their own separate effects; these were not the results of Ottawa. The domestic policies which hastened economic recovery in the separate Dominions had important effects both on the volume of trade and on its direction. Australia's importation of motor-cars may be cited as a simple example: the proportion of light economical cars which she imported rose during the depression; the proportion of heavy American cars which she imported—preference

or no preference—rose as she climbed out of the depression.[1] As for Australia's exports to Great Britain during this period, there was a higher proportionate increase on non-preference items than on preference items. These are but a few factors which would have to be taken into account in assessing the results of Ottawa. It is not necessary to conclude that Ottawa had no appreciable results. Some results are obvious. It would be easy to show that the agreements diverted a good deal of the Empire's market for cotton goods from foreigners to Englishmen, and that Dominion producers of meat and butter gained ground in the British market at the expense of foreigners. But how was the total production of industry in Great Britain and the Dominions affected by the special favours allotted to particular industries? Were there any disadvantages to set against the advantages? Did the reciprocal interlocking of the separate protective systems of the Commonwealth pass increasing costs from one member to another and thereby impose a burden on unsheltered production? Did the diversion of trade from foreign producers impair the goodwill of foreign customers? Did it provoke counter-measures of political-economic defence? Did it play a part in provoking Germany's drive into south-eastern Europe? Did it weaken the resistance to that drive?[2] Did it encourage military aggression? The list of questions about the indirect effects of Ottawa could be multiplied. To disentangle the network of direct effects would demand a most laborious and intricate examination of the statistics, item by item. Even then, the analysis would be inconclusive. It is certainly not a task which lies within the scope of this volume.[3]

What this volume must try to make clear is the effects which experience of the Ottawa agreements, whether or not this experience was rightly understood, had upon the development of economic policy. This development must be measured against the background of purpose. Enough has already been said in the previous section about the professed purpose of 'giving a lead' to international trade. Such an altruistic purpose was very seldom professed in those earlier

[1] *Australian imports of motor vehicles and parts.* Proportion supplied by the United Kingdom.

1929–30 .	27 per cent	1933–4 .	50 per cent
1930–1 .	44 ,,	1934–5 .	37 ,,
1931–2	61 ,,	1935–6 .	35 ,,
1932–3	53 ,,		

[2] See A. G. B. Fisher, 'The German Trade Drive in South-eastern Europe', *International Affairs*, March–April 1939.

[3] The subject was opened by the *Economist, Special Supplement*, 3rd November 1934, in *A Preliminary Reconnaissance* by Sir George Schuster. See also the *Economist*, 1st May 1937, Ottawa section.

days when the preferential policy was first formulated. Joseph Chamberlain was usually content to profess the ideal of imperial consolidation; it hardly occurred to him that this ideal needed an apology.

The ideal had both its political and economic aspects. Mr. Neville Chamberlain restated the political side of it in an address to the conference of conservative associations on 2nd October 1936. In this address he referred to the growth of separate Dominion sovereignty since the War, and described the Ottawa agreements as 'an attempt to bring the Empire together again and to supplement and support the common sentiment by bringing more material interests into line with it.' Did the attempt 'to bring the Empire together again' prove successful? Did the Ottawa agreements act as a check upon the growth of Dominion status, or as a mitigation of those separating tendencies which were possibly (though not necessarily) inherent in it? Some evidence on this point is available in the decisions which the governments of the Commonwealth took shortly after Ottawa in the matter of their organized economic co-operation. The methods and institutions by which this co-operation might be furthered were a regular subject of discussion at imperial conferences. Committees were appointed by successive conferences to report on problems of transport, the diffusion of news, the standardization of industrial products, the co-ordination of statistics, the interchange of patents, and many similar matters. The committees reported also on the work of the Empire Marketing Board, the Imperial Economic Committee, the Imperial Institute, and the numerous institutes or bureaux which existed for the purpose of promoting scientific research upon the Empire's problems of production. The Ottawa Conference resolved to overhaul this rather untidy machinery of imperial economic co-operation in order to improve its effectiveness. With this idea in its head, it recommended the governments of Great Britain and the Dominions to appoint two representatives each to a special committee which would 'consider the means of facilitating economic consultation and co-operation among the several governments of the Commonwealth'.[1] But the committee, when it met in 1933, had a different idea in its head. Faithful to its terms of reference, it reviewed the existing agencies of economic co-operation, but it reviewed them primarily in the light of the theory of Dominion status. Those agencies which conformed to the principle of voluntary co-operation between equal governments might be left undisturbed;

[1] Cmd. 4174 of 1932, p. 14. Note the *caveat* of South Africa and the Irish Free State against an imperial economic secretariat.

those other agencies which, like the Empire Marketing Board, did not conform to this principle, must either be modified, or scrapped, or carried on by the sole choice and at the sole expense of a separate member of the Commonwealth. In short, the Ottawa plan of the British Commonwealth must not be allowed to modify the Statute of Westminster plan. The channels cut by the swelling flood of national autonomy were the really important ones, the current of economic integration, whatever its strength might be, would not be allowed to cut across these constitutional channels or alter their configuration.[1]

Precisely what was the current of economic integration? We have already more than once explored its very diverse sources[2] For half a century or more, British conservatives had cherished a nostalgic yearning for an Empire which had ceased to exist, they could not rid themselves of the feeling that its self-governing units, in their economic policy, had strayed from the proper imperial path. Disraeli expressed regret because the grant of colonial autonomy had not been accompanied by 'a great act of imperial consolidation', he really meant that colonial tariffs were improper. The same feeling explains Joseph Chamberlain's early vision of an imperial *Zollverein*, it was proper that a single tariff wall should surround the British Empire, improper that separate tariff walls should exist within it But the self-governing colonies and dominions could not see that they were acting unimperially, and they would not take their tariff walls down Like the British conservatives, they believed the truly imperial thing was the thing they happened to want, by their policy of preferential tariffs they gave Great Britain some protection against foreign competition and gave themselves generous protection against British competition. They sincerely believed that they were doing Great Britain a favour. And they expected, if they did not demand, that Great Britain should return the favour—with this difference, that whereas they expected her to change her fiscal policy so that she might protect them against foreign competition, they did not for a moment believe that she would ever seriously protect herself against them. When, for debating purposes, they invited Great Britain to

[1] Report of the Committee on methods of Economic Co-operation (the Skelton Committee), Cmd 4335 of 1933 The whole subject is treated sufficiently in Gerald Palmer, *Consultation and Co-operation in the British Commonwealth* (Oxford University Press, 1934) Cf. columns of *The Times*, July-September 1933, especially articles of 8th June ('An opportunity missed'), 4th July and 5th July ('A duty to the Colonies') A letter from Sir Halford Mackinder on 11th August contains interesting information on the origins of the E M.B.

[2] See above, vol i, pp 39–41, vol ii, ch i, secs 4 and 5

imitate their policy of 'home producer first, Empire producer second, and foreign producer third', they took it for granted that their seemingly modest claim for second place would give them all they wanted—a merely nominal subordination to English agriculture and a really effective protection against their own foreign rivals. It never occurred to them that they might be in any degree at cross-purposes with their conservative allies in Great Britain. Yet the Ottawa Conference proved that it was so. Great Britain was quite willing to accept in Dominion markets increased protection against the foreigner, but she also wanted to see in them diminished protection against herself She was willing to give to the Dominions in her own markets a substantial though not unlimited measure of protection against the foreigner, but she also made clear her alarming readiness to protect her own agriculture against theirs. In short, the design of imperial economic integration, which, in propaganda, had appeared so harmonious and simple, was now seen to be made up of pieces which it was not easy to fit together. Nostalgic yearning for a *Zollverein* had all unconsciously inspired the British to design an edifice of imperial shelter within which there would be a lowering—a complete razing was, alas, impossible—of Dominion barriers against industrial products. The Dominion designers had sketched an edifice of imperial shelter within which trade in agricultural products would remain to all intents and purposes free. But both in Great Britain and the Dominions there were masterful interests whose plan of shelter was not really imperial at all, merely national. The Ottawa Conference, therefore, to say nothing more of its international significance, was not altogether an attempt at imperial integration, it was also a struggle of clashing national interests within the Commonwealth and of clashing sectional interests within the nations of the Commonwealth The statesmen succeeded in making agreements, yet these agreements were not extensive or precise enough to remove their doubts about the future The doubts of British statesmen might well have found voice as they pondered the general clauses which the Dominions had accepted can we really trust them to use these clauses to lower tariffs in our favour? The doubts of Dominion statesmen might well have found voice as they reflected on the policy of agricultural quotas which the British delegation had revealed can we really trust them not to extend their quotas to our detriment?

It will be observed that neither in the propagandist design of imperial economic integration, nor in the actualities of economic policy, did the relations of the Dominions to each other take on very great importance. All of the Dominions were chiefly occupied with

their relations to Great Britain. It is true that at Ottawa some of them negotiated with each other as well as with Great Britain. The Canadian government was particularly active; it had already, during the previous twelve months, signed trade agreements with Australia and New Zealand, at Ottawa it signed agreements with South Africa, the Irish Free State, and Southern Rhodesia.[1] The constitutional association of the Dominions within the British Commonwealth certainly made them readier to negotiate with each other than they would otherwise have been; the goodwill which they bore to each other as members of the same society made it easier for them to adjust their conflicting interests. The point is that their interests did not touch very closely, and where they did, they were just as likely to make conflict as to make harmony. Canada, as the Dominion most developed industrially, was in a rather happier position than the rest; South Africa or Australia would be willing to grant her a preference on motor-cars in return for a preference on dried fruits or wines, the cost to them would be no greater than that of the preferences exchanged with Great Britain. In lesser degree the same reciprocal relationship existed between Australia and New Zealand; but the history of trade negotiations between these two countries was an uneasy one. The New Zealanders were anxious to protect against the Australians both their own infant industries and also the preferential market which they had allotted to Great Britain[2] Most of the Dominions were unwilling to make an impartial distribution of preference at the same rate for all members of the Commonwealth.[3] But it was agricultural rather than industrial rivalry which was most likely to disturb their harmony. Consider for a moment the position of New Zealand butter. The demand of the Canadian butter-farmers for protection against their New Zealand fellows had played an important part in bringing to power Mr. Bennett's high-protectionist government. Australia had long since raised her tariff against New Zealand butter, it was behind this shelter that she developed her home market and her export dumping scheme. But New Zealand could not in principle protest against the agricultural protectionism of her sister Dominions, she protected South Island wheat by a sliding scale of duties reminiscent of the early nineteenth-century corn laws; she protected honey and apples and onions; her high

[1] *Canada Treaty Series*, 1931, no 5 (with Australia, June 1931), 1933, no 8 (with New Zealand, April 1932), 1933, nos. 2, 3, and 4 (the treaties signed during the Ottawa Conference).

[2] New Zealand motives can be studied in the debate on the Trade Agreement (New Zealand and Australia) Ratification Act of 1933. See *J.P.E*, vol xv, pp 161 ff

[3] Ibid, vol xiv, p. 100, for explicit rejection of this principle by Australia.

revenue tariff even protected the bad wine of Auckland province. And she went so far as to ask for protection in the British market, not only against foreigners, but against other Dominions. The fact that this request was, from a certain angle, a very reasonable one, illustrates more clearly than mere unreason could have done the conflict of interests which was liable to break out. New Zealand could with some justification represent herself as Great Britain's model trading partner Naming no names, there were other Dominions which did not take much pains to keep their shipments of meat to the quantities agreed upon with Great Britain, New Zealand took scrupulous pains. There were other Dominions which dumped their produce in the English market at prices lower than the home price; New Zealand had no dumping schemes. And as for the treatment accorded to Great Britain's manufactured exports, 'New Zealand's tariff on British goods was approximately one-fourth as heavy as were the comparable tariffs of the other Dominions'[1] Why should not Great Britain give to model New Zealand a competitive advantage over other not-so-model Dominions? Why should there not be 'an equitable scheme of differential treatment of Empire countries'?[2]

An inquiry into the trading relations of the Dominions with each other and into their protectionist jealousies would make an interesting chapter, but it would be too long for this book and not sufficiently important. Despite what has been said above, the Dominions on the whole conducted their economic policies with a good-tempered and reasonable regard for each other's interests. Their relations one to another were not really a major interest to them; their real interest was in their several relations with Great Britain. Great Britain, after all, was the historic source of their outpouring. Great Britain was the economic metropolis whose power and need had given to them in the past their individual opportunities of specialization—to the New Zealand pastures their butter and meat, to the Australian plains their wool, to the Canadian prairies their wheat. Although they had long since outgrown this simple economic plan, although the developing complexity and articulation of their economies was multiplying both the conflicts and the harmonies which joined them to the great society of trade, although some of them were gravitating towards other centres of economic power, it was still primarily Great Britain

[1] Cable of the New Zealand government to the United Kingdom government 23rd February 1935 Quoted in W B. Sutch, *Recent Economic Changes in New Zealand* (Wellington, 1936), p. 75

[2] *Report of the Dairy Industry Commission*, New Zealand, 1934, paras 69-72 For evidence of a New Zealand feeling that Australia, considering her record, was rather too well treated by Great Britain, see Sutch, op cit, pp. 65, 74-5, 80, 98, 129, 154-5.

which they had in mind when they spoke of their imperial economic relationships.

. . . .

So the main controversies which followed the Ottawa Conference, whether they took the form of broils between domestic interests, or arguments shouted across the seas, or a medley of both, had reference to the separate lines of traffic which ran from Great Britain to each of the Dominions, and back again. The confusing scrimmage of domestic and external sectionalisms, the touchy eagerness of offended interests to cry out their grievances or apprehensions, may be illustrated by some crises of the year 1934. In that year the Australian government imposed new duties on Lancashire's drills and denims and dungarees and jeans. The duties affected a very small proportion of Lancashire's exports to Australia; but Lancashire leapt to the conclusion that other and more important classes would be punished later. The duties were imposed according to the procedure agreed upon at Ottawa, the Australian Tariff Board had recommended them to the government; but Lancashire accused the Tariff Board of ignoring Australia's pledge to give British producers the opportunity of 'reasonable competition'. A deputation representing all sections of the cotton trade presented a memorandum of stiff protest to the Australian High Commissioner and requested him to dispatch it immediately to his government When it transpired that the High Commissioner had dispatched it by post instead of by cable, Lancashire's indignant cries rent the heavens. Columns of angry letters appeared in the newspapers: bill-stickers went round the streets with posters—'To cotton workers! Do your bit! Don't buy Australian produce until the cotton tariff is taken off!' In response to 'a spontaneous popular demand' (so the newspapers described it) two hundred grocers in Bolton declared a boycott of Australian goods The President of the Lancashire Grocers' Association threatened to make the boycott an official and universal one. One naive and plaintive orator accused the Australians of not 'playing cricket'. He might rather have accused them (for these were the days when the body-line controversy was rending the Empire) of playing it![1]

This little storm blew over. Lancashire was willing to accept a compromise from a government which was embarrassed by election struggles; in the course of time Lancashire grew willing to admit that this government was living up to its Ottawa undertakings in quite a handsome manner. But there occurred in the years 1934 and 1935 a far more serious disturbance of the Ottawa waters. This time it was

[1] See files of the *Manchester Guardian*, 25th August 1934 to 12th September 1934.

the southern Dominions who had cause to voice their protest and apprehension. They believed that their future as agricultural exporters to Great Britain was in jeopardy The story of their fears and struggles is worth telling at some length

The commodities in dispute were meat and dairy produce. Their histories are analagous, but distinct At Ottawa, the British government had revealed its policy of restoring meat prices by measures of restriction; but it had consented, in accordance with the principle of preference, to impose upon foreigners the burden of these measures. Foreigners (that is to say, Argentinians) would be permitted to maintain at the 1931 2 figure their exports of chilled beef to Great Britain, but they would be compelled to reduce their exports of frozen beef and mutton and lamb by six quarterly cuts to a volume 35 per cent. lower than that of 1931-2 Australians and New Zealanders, on the other hand, need fear no restrictive measures until July 1934, they would merely be expected in the coming year to hold their exports at the 1932 level--and 1932 was for them a peak year They were encouraged with the expectation of an orderly expansion in following years

Unfortunately, the initiation of the policy thus agreed upon had no immediate effect upon prices The British government therefore determined to demand still further concessions from foreign suppliers But there was a limit to what it could demand. These foreign suppliers were also foreign purchasers of British goods, and they were foreign debtors to British bond-holders As debtors they might be less reliable than Australians or New Zealanders, and as purchasers they might mean less to British export industry, but in both capacities they meant a good deal The British government therefore felt it necessary to negotiate with them. In May 1933 it announced the conclusion of a trade treaty with the Argentine Republic. In this treaty the Argentinians submitted to restrictions over and above those which the Ottawa Conference had inflicted upon them; they accepted a 10 per cent. reduction of their exports of chilled beef, and an additional 20 per cent. reduction of their exports of mutton and lamb. But they received at the same time assurances against future penalization. Great Britain promised to impose no duty on Argentinian meat before November 1936 She also promised not to give to the Dominions (save that they might persevere in their experimental shipments of chilled meat) what she was now taking from the Argentinians. And she promised, if the continuation of low prices should convince her that still further restriction of supply was desirable, to make the Dominions shoulder their share of the

new burden. In this treaty, and in two other treaties which were signed in the same year with Sweden and butter-producing Denmark, Great Britain gave a little more precision to the formula, 'foreign producers third'. The Dominions had always hoped that this formula would mean, at least in an emergency, 'foreign producers nowhere'. They had hoped that Great Britain would push foreigners out of her markets to give them just as much room as they could take by pushing in. When the treaties of 1933 compelled them to realize that their expectations had been pitched too high, they burst into sorrowful protest They called these three treaties 'the three black pacts'.

In the following year they were brought face to face with the still more alarming prospect of having to make substantial sacrifices in accordance with the principle of 'home producers first'. It was bad enough that foreigners should still be left somewhere in the running; might it not be far worse if Englishmen and Welshmen and Scots should be put far in the front of it? Until 1st July 1934 Dominion producers had freedom, not from agreed regulation, but from restriction: from that date onwards they were liable to quantitative restriction also. The British government did not immediately give any signs of a desire to impose it It temporized with a policy of hand-to-mouth short-term agreements for regulation which permitted Dominion meat-exporters actually to improve on their position of the Ottawa year. But the Dominions were well aware that Mr. Walter Elliott, at the Department of Agriculture, was brooding over policies which boded them no good. In July 1934 these policies revealed themselves in a government White Paper dealing with the situation of the live-stock industry[1] In February 1935 they became the text of a long cabled dispatch to the governments of Argentina and the Dominions. The dispatch began by describing the acute plight of the live-stock industry in Great Britain. It insisted that this plight was not of Great Britain's own making, during the last twenty-five years—years in which the British consumption of meat had increased by a third—the British production of meat had remained virtually unchanged It was the expansion of overseas production which had made the mischief: the overseas producers must bear the chief burden of repairing it. And not the foreign producers merely. Empire producers had done well enough already at the expense of foreigners. Empire countries were not in a position to absorb the whole, or even the major part, of Great Britain's exports; Empire producers could not therefore expect Great Britain to wreck her commercial and financial relations with

[1] Cmd 4651 of 1934.

foreigners by putting the whole sacrifice on their shoulders. Nor could they expect her to acquiesce indefinitely in the ruin of her own cattle industry, or to prop it up for ever by subsidies which came out of the pockets of her own taxpayers. Empire producers and foreign producers must together begin to share the paying. But how? There were two possible methods: either a drastic limitation of imports to the point necessary to lift and hold the prices of British live stock, or else the imposition of a levy upon imports, and the allocation of its proceeds to the assistance of the home industry. The British government favoured the second method, although it felt by no means certain that measures of restriction would not also be necessary: if so, the overseas governments must themselves take the responsibility of applying them. Admittedly, the overseas governments had for the time being the power to block the levy-cum-subsidy policy which the British government favoured; failing their consent to modify the existing agreements, Great Britain could not impose a levy on Dominion meat until August 1937, nor on Argentinian meat until November 1936. But what did this signify? Great Britain offered them the choice of releasing her from her bond or of submitting forthwith to a drastic restriction upon their export trade. It was a harsh choice, pressed upon them in a harsh document, as if the British government had made up its mind to say, 'We'll teach these people to see reason.'

Those people saw quite a different kind of reason. Consider the reply of the New Zealand government. Why, it asked, should New Zealand's producers of mutton and lamb be heavily penalized in order to solve the problem of the beef-producing countries? Only 2½ per cent. of New Zealand's production of meat consisted of beef; and yet, thanks to her specialized skill in the rearing of fat lambs and prime sheep, her exports of meat amounted to more than a quarter of her total export trade. Australia's exports of meat were only 6 per cent. of her total export trade, Canada's were only 2 per cent. New Zealand's *per capita* exports exceeded those of any other country, and the great bulk of them went to the United Kingdom. It was the sale of them there which enabled New Zealand to meet the interest on her debt and to pay for British manufactures. This historic arrangement had surely been advantageous to both countries. Did Great Britain desire to end it? And if she did, what special complaint had she against New Zealand? It was not to be denied that the new proposals, if they were put into effect, would have an inequitably discriminatory effect against New Zealand. They would doubtless cause inconvenience in other Dominions; in New Zealand

they would cause catastrophe. What had New Zealand done to deserve this? Was her tariff too high? It was only one-fourth as high as the tariffs of some other Dominions. Had she failed to carry out her Ottawa pledges? She had in every particular observed them with willingness and zeal. It was to the letter and spirit of Great Britain's Ottawa pledges that she appealed.[1]

To the protests of other Dominions Great Britain might have been able to make a sufficient reply after all, the Dominions had no more of a natural right to unrestricted freedom in her markets than she had in theirs But there was no denying the contention of the New Zealanders that the new policy, if carried into effect, would discriminate unfairly and ruinously against them The British government was therefore faced with the choice of inflicting a substantial injustice upon New Zealand; or else of departing from the formal impartiality which at Ottawa and ever since had been its rule of conduct towards the Dominions; or else of abandoning the policy which it had announced It chose the last course of action. In July 1935 the statesmen of the Dominions, assembled in London for the Jubilee of King George V, received an assurance that for another three years no quantitative restriction and no levy would be imposed against their meat There also emerged from the discussions a rather vague understanding that the Dominions would regulate their supplies to the British market. In December 1936 Great Britain made a new agreement with the Argentine Policy had at last found a fairly steady groove in which to run. Foreign suppliers had to submit to a levy upon some classes of their production, on the other hand, they were given the security of minimum quotas on all classes. Empire suppliers had escaped both a levy and quantitative restriction; on the other hand, they had to co-operate with Great Britain in measures of regulation. Looking back over the whole period, Great Britain could claim that she had, after all, kept her Ottawa promise of granting to Dominion producers, at the expense of foreign producers, the opportunity of 'regulated expansion'.[2] Yet the long-drawn-out crisis had made an indelible impression on the

[1] Cable of 23rd February 1935, quoted Sutch, op cit, pp 75–6 For the Australian angle on meat quota controversy see *J P E*, vol. xv, pp 884–5, vol xvi, pp 82 ff, 641 ff, vol xvii, pp 73 ff

[2] *The Economist*, 1st May 1937, p 267. In 1931 Great Britain paid £17,695,000 for imports of Empire meat (other than pig-meat) and in 1935 she paid £20,305,000 The gains of Empire producers were more than balanced by the losses of foreign producers payments to the latter were in 1931 £35,508,000, and in 1935 £22,622,000

For a general view of the whole meat position see publication of the Imperial Economic Committee (Commodity Series), *Meat*, 1937. Appendix I describes succinctly the regulation of imports into the United Kingdom.

minds of these producers: it had destroyed for ever their care-free confidence in the everlasting all-sufficiency of the British market.

The crisis in dairy production and the controversies associated with this crisis had a similar psychological effect. This, too, is a story which it is most profitable to examine from the New Zealand angle. New Zealand's dairy farmers felt the impact of the crisis through a collapse of prices. in 1929 their butter fetched 183 shillings per cwt. in the British market, but it fetched only 97 shillings in 1932, 81 shillings in 1933, and 66 shillings in 1934. Instead of contracting their production in response to the fall in price, they increased it in the hope of sustaining their incomes by larger sales. In these years they supplanted the Danes as the chief suppliers of dairy produce to Great Britain. In 1928–9 they produced just under 100,000 tons of butter and received nearly £16,000,000 for their sales to Great Britain: in 1933–4 they produced over 160,000 tons of butter and received little more than £10,000,000 for their sales to Great Britain. In 1934 an expert committee reported that half the New Zealand dairy farmers were probably unable to meet their obligations, and that, failing effective remedies, there was likely to be a complete collapse of the Dominion's economic and financial structure [1]

New Zealand had hoped to secure at the Ottawa Conference effective shelter in the British market for her sorely tried dairy farmers She asked for a tariff on foreign produce, with exemption for the Dominions, and also for quantitative restriction of imports, again with exemption for the Dominions.[2] The British government responded generously to the first request, but did not accede to the second one. In January 1933 the New Zealand dairy industry asked again for quantitative restriction of foreign consignments of butter to the United Kingdom. But the British government had to consider the needs of its own export industries. It was at this very time planning to make a trade treaty with Denmark which would, in return for Danish concessions to British coal and manufactures, assure the Danes that the existing rates of duty against their butter would not be raised, and guarantee to them a minimum quota in the event of quantitative restriction being imposed It therefore told New Zealand that it found itself unable to restrict foreign supplies and at the same time leave Empire supplies unregulated; it was, however, prepared to restrict the former twice as severely as the latter. The New Zealand government would have been ready

[1] 1934, New Zealand, *Dairy Industry Commission*, para 146.

[2] *A Butter Quota or a Free Market?* Memorandum by the Rt Hon. J G. Coates (Wellington, N Z., 1933), p. 6.

to negotiate on this basis if it had been able to persuade the New Zealand farmers that quantitative restriction, even if it applied to New Zealand produce, might, with its preferential mitigations, be better than the 'senseless price war' which was at present depressing prices But the farmers would not be persuaded. The Minister of Finance made a gallant effort to persuade them: in an able pamphlet he warned them that the United Kingdom would probably in any event impose a quota when in 1935 it recovered the freedom which it had surrendered at Ottawa; he enticed them with the forecast of 'a larger return for a smaller product', and he told them flatly that they had to choose between regulation by a quota and regulation by a price war—'not *whether* to reduce, but *how* to reduce'[1] The farmers stopped their ears to these blandishments and warnings The Prime Minister of New Zealand then suggested that a representative of the farmers of Great Britain should come out to discuss with New Zealand farmers the plight which both communities were suffering. The discussions achieved nothing except postponement. The government adopted a purely negative and defensive attitude[2] But the wistful New Zealand farmers still clung to one deceiving dream of their salvation. supposing New Zealand abolished altogether her tariff on British goods, would Great Britain then promise that she would never impose restrictions on the entry of the Dominion's farm products? The New Zealand government transmitted this question to London. The British government replied that it could not treat 'a suggestion put forward by particular trade interests' as if it were a real proposal At the same time it made quite clear its unwillingness to make special arrangements with any single Dominion, and its determination to pursue the policy of 'planned marketing', no matter what the Dominions did with their tariffs. The New Zealand government, therefore, returned to its thankless task of persuading the farmers to allow it to co-operate with the British government. But before very long the British government lost patience and changed its policy It decided to look after its own farmers in its own way, and to leave the Dominion governments to look after their farmers as best they could[3]

[1] Coates, op. cit, pp. 18, 20.

[2] Sutch, op cit, pp 83 ff On 27th October 1933 the New Zealand government cabled its definite refusal to consider a quota on cheese, but it did not consider the question of quantitative regulation closed, as is shown by its cable of 28th February 1934

[3] Dispatch of 9th March 1934 in Sutch, op cit. The British policy of a guaranteed price for manufactured milk was set forth in the white paper Cmd 4519 of 1934. On the general background of British agricultural policy see Orwin's periodical *Agricultural Register*

The methods which the New Zealand government adopted in tackling its hard task will be reviewed a little later in another context. One fact only needs to be stressed now: the fact that the New Zealand people, following slowly after their government, began gradually to see their economic destiny in a changing perspective. They began to realize that they could not continue to work out their future solely by means of the old division of labour which had joined them to the people of Great Britain. The people of Great Britain were no longer able or willing to play their full part in the developing game New Zealanders certainly thought that they might play a rather more willing part than their present one. The expert commission which reported in 1934 expressed the opinion that Great Britain ought to initiate 'an equitable scheme of differential treatment of Empire countries'—which meant that she ought to give New Zealand preferential advantages in the British market over other Dominions But the same commission did not conceal its opinion that even a doubly preferential British market would not for ever meet all the economic needs of New Zealand. 'We must', it said, 'abandon our traditional view of the United Kingdom as a bottomless market '[1] This was precisely what Mr Coates had been trying to point out to the farmers throughout the previous year. He had read them a most illuminating lesson in New Zealand history, and had told them that a new chapter in this history was opening.

> 'Before 1882', he had written, 'we were an isolated island. . . . Then came Refrigeration—and at once our perishables became marketable in England . . In 1882 we discovered in Great Britain a bottomless market, in 1932 we discovered that the market is not a bottomless one The fifty years from 1882 to 1932 were very different from the fifty years before, the fifty years ahead of us will be as different again '[2]

That is the conclusion which we shall see emerging everywhere from the experience of the years after Ottawa the Empire market is not enough. The propagandists of the nineteen-twenties had identified the 'markets' of their oratory with the preferential Empire market: at the conference of 1923 and on many occasions thereafter they had cried, 'If only we had imperial preference, our future would be made.' When they got imperial preference, they

[1] 1934, New Zealand, *Dairy Industry Commission*, pp. 69, 70, 73.

[2] Coates, op. cit , p 5. For a clear and succinct backward survey of the whole situation throughout the Empire see the publication of the Imperial Economic Committee (Commodity Series), *Dairy Produce*, 1937.

changed their exclamatory phrase: instead of *If only*, they now said —*And yet* There were some intelligent men who made a further change, putting the question—*And why?*

> 'In England's free-trade days', wrote Mr Coates to the New Zealand farmers, 'Imperial tariff preference, if only England could be induced to grant it, was looked to with boundless hopes Now that we have the preference it does not seem to work too well—and why . . . ?'[1]

Why indeed? when the greater part of New Zealand's export trade was lucky enough to enjoy the shelter of the preferential British market? If New Zealand felt like this, what about Australia, which enjoyed this shelter for only about a third of her exports? And what about Great Britain?

Let us consider the experiences of Australia and Great Britain, and relate them the one to the other. The British found themselves, after a time and on the whole, very agreeably surprised by Australia's interpretation of her Ottawa obligations. In matters of commerce (as recently in matters of cricket) the Australians had somehow or other got a reputation for seeing only their own side of the question, and seeing it with an unrelenting intensity. In the ten years which preceded the Ottawa conference it was the Australians who had most insistently advertised the idea of sheltered markets, in the years which immediately followed the conference, it was they who expressed the loudest indignation against Great Britain's namby-pamby consideration (for as such they seemed to regard it) for Argentinians and Danes. Their propaganda seemed to many people to betray a peculiarly egotistical insensitiveness to the vital interests of Great Britain as a world trader and world creditor, it thereby provoked resistance and even resentment amongst those sections of British society which because of their tradition or training or the sources of their income were most conscious of this interest. Those other sections which had most to gain from 'full opportunities of reasonable competition' with Australian manufacturers (against foreign manufactures they were certainly protected) were not confident that the opportunities would really be given them The vague general clauses of the Ottawa agreement might be interpreted in all sorts of ways British manufacturers had no good reason for anticipating a spirit of interpretation favourable to themselves, they had very good reason for associating increases of preference with increases of duty against British goods. They still felt indignant about the violent tariff increases which had been the first instinctive

[1] Loc cit.

reaction of the Scullin government to the economic and financial crisis; they had no ground for anticipating that the Lyons government would be inspired by a very different spirit. They were quick to mark the strident propaganda which Australian manufacturers let loose against the Ottawa agreement They were ready to cry out their resentment and fear so soon as the Australian government gave signs of yielding to this propaganda Lancashire's outcry against the cotton duties of 1934 was instantaneous and shrill.

One thing British exporters did not properly understand They could not be expected to realize that Australia's domestic struggle of interests and policies was passing into a new phase, and that the protectionist aggression which since the formation of the Australian Commonwealth had moved from strength to strength was now about to suffer a definite check The Australian government was in a sense speaking the exact truth when it claimed that it had brought back concessions from Ottawa but had made none there, for Ottawa gave additional leverage to the policy which in any event it desired to pursue. 'The Government's general tariff policy', declared the Prime Minister, 'has become merged with the undertakings given in the Ottawa Agreement.'[1] The Ottawa agreement had also recognized the instrument on which the Australian government depended to set its policy in motion The Tariff Board, which in the middle nineteen-twenties had seen little except the obvious advantages which high protection conferred upon particular industries, had more recently been turning an increasingly cold eye upon the costs which high protection imposed upon industry in general The Tariff Board did not indeed render very much reverence to the general principles enshrined in the Ottawa agreement.[2] After a short experience of the confusions and contradictions enshrined in them, it declared with downright candour 'There is no hard and fast formula which can be used with any degree of satisfaction' Canada's Tariff Board was in theory a more exemplary body than Australia's, it had a trained judicial mind to preside over its deliberations, and it went scientifically to work, as directed by the pledge accepted at Ottawa, to discover the respective costs of production of Canadian and British industries. Unfortunately this proved to be a task, as American experience had already proved, beyond the capacity of science. And the Canadian Tariff Board seemed to take such a long time in

[1] Copland and Janes, *Australian Trade Policy A Book of Documents 1932-1937* (Melbourne University Press, 1937), Document 28

[2] It pointed out that Article X was capable of various interpretations, some of which were quite unacceptable, whereas Article IX stated the principle on which the Board was already working.

coming to any conclusions![1] But the Australian Tariff Board understood that governments have to do their work quickly and on a basis of reasonable probability. it did its own work quickly, and it did it reasonably well. Australia's combination of an active Tariff Board and a willing government soon began to win applause from the doubters. The crisis restrictions upon British trade began rapidly to disappear. The Tariff Board, invited by the government to consider the protective effect of the exchange and the primage duties, advised the government to compensate for them by a downward revision of duties. The government accepted this advice only so far as the preferential duties were concerned, and boasted that it had thereby made 'the greatest single contribution directed towards the encouragement of British trade made by any Australian government since 1907'. Meanwhile the Tariff Board continued working on its general review of the tariff—a task which had been entrusted to it in accordance both with the government's election policy and its Ottawa pledges. Between 1932 and 1938 it reviewed 300 items The outstanding result of this review was a steady though discreet pruning of the most costly excesses of tariff-making. This pruning, so far from weakening Australian industry, strengthened it.[2] Even the spokesmen of Australia's protected manufacturing interest began gradually to soften their frightened patriotic outcry. The spokesmen of British manufacturing interests, which had done sufficiently well during

[1] British impatience with the slow procedure of the Canadian Tariff Board found very full expression in the newspapers during 1933 (e g *The Times*, 20th and 27th September) The Board was, however, by no means slow according to the standard set by the Tariff Board of the United States In its procedure and methods it stood midway between this Board and the Australian one

[2] The following table gives some striking evidence of reduction in Australian costs, though it would be a mistake to attribute this wholly to the pruning of excessive tariff items·

Price in	*1930*		*1937*		
			Australia		
	Australia (Sterling) Per ton	*United Kingdom (Sterling) Per ton*	*(Australian currency) Per ton*	*(equivalent Sterling) Per ton*	*United Kingdom (Sterling) Per ton*
	£ *s* *d*	£ *s*. *d*	£ *s* *d*	£ *s*. *d*	£ *s* *d*
Pig iron	6 10 0	3 5 0	4 5 0	4 8 0	6 1 0 to 6 11 0
Steel joists	12 12 6	7 7 0	9 13 0	7 14 5	10 12 6 to 11 2 6
Bar steel	12 12 6	7 15 0	9 13 0	7 14 5	11 0 0
Spring steel	24 0 0	14 5 0	17 14 8	14 3 8	15 10 0

This table is taken from the paper on *The Australian Tariff* prepared by Mr W S. Kelly for the British Commonwealth Relations Conference 1938

these years of Australia's economic recovery, publicly testified to their satisfaction. 'Ottawa', declared the Australian Association of British manufacturers in 1936, 'was worth while.'[1]

And yet in the year 1936 Great Britain was still taking 60 per cent. of her imports from the countries outside the Empire and was sending to them slightly more than 50 per cent. of her exports. Australia's trade was in a very similar situation.[2] Was there any necessity for either country to jeopardize its export trade with foreign nations by diverting still more of its import trade to British nations? From August 1937 the Ottawa agreements would become terminable at six months' notice. Would it be worth while to try to tighten them? Might it not be more advantageous to loosen them? In a statement of December 1937 Mr. R. G. Menzies, the Attorney-General in the Australian government, raised the question whether it might not be

> 'that we are reaching a point in economic history when a rigid insistence upon the fullest measures of Empire preference may prevent the British countries from taking their proper part in a great movement of world appeasement through the revival of trade'.

Australia, he declared, had no intention of dropping the substance for the shadow; but she would be ready to exchange some of her immediate preferential advantages for the wider advantages which would follow a really constructive trade agreement between the United Kingdom and the United States.

It is worth while tracing in a little detail the stages by which the Australian government moved towards this wider outlook. The experiences of the minister to whom in October 1934 was allotted the special task of negotiating trade treaties throw a considerable illumination upon the government's unplanned pilgrimage. The minister made a European journey which revealed to him how widespread and how menacing was the resentment which the Australian people had provoked among 'its old trading friends'.[3] Australia had always assumed that the eagerness of her foreign customers

[1] Copland and Janes, op cit, Doc 60.

[2] The exact figures in 1936 were

Great Britain	Imports from Empire Countries	39 4 per cent.
	Exports to Empire Countries	48 3 ,,
Australia·	Imports from Empire Countries	56 2 ,,
	Exports to Empire Countries	59 5 ,,

Australia's imports from Great Britain alone were 40 6 per cent., exports to Great Britain alone 49 5 per cent.

[3] Copland and Janes, op cit., Doc 90

was part of the natural order of an unchanging world. Until 1930 their demand for her primary products was regular and constant. In a spirit of casual egoism and by unilateral action she imposed upon their products whatever penalties appeared to suit her own convenience. She paid no attention to the goodwill which she was squandering Sometimes she was even careless enough to forfeit the safeguard of reciprocal most-favoured-nation treatment which adherence to Great Britain's commercial treaties or a mere passive acquiescence in them had secured for her.[1] It followed from all this that a considerable number of those nations which in the nineteen-thirties found themselves compelled to cut down their imports, were in the mood to make a beginning, wherever they could, by cutting out their imports from Australia The long-suffering Belgians, by one stroke, annihilated practically the whole of Australia's barley export.[2] When the world had come to such a pass as this, it was no wonder that the Australian government appointed a special minister to negotiate trade treaties But a country's power to negotiate trade treaties is limited both by its own domestic tariff, and by the previous treaties which it has made with its own most intimate friends. Australia's Ottawa pledges had left her for the time being very little to bargain with, and her boasted mitigations of primage duty and exchange protection in exclusive favour of Great Britain and Canada had provoked additional resentment among her foreign trading partners. It was only the progressive overhaul of her own tariff which at length enabled her to offer to foreign countries a reasonably attractive schedule of intermediate duties. But by the time she had progressed so far, she had learnt from experience that there were some advantages in magnanimity, the reciprocity for which she asked was in the spirit, and not merely according to the letter, of the most-favoured-nation clause.[3]

It was the great wool interest of Australia which showed most concern about the slackening demand of foreign buyers and their manifestations of ill will.

> 'Wool', declared one of the industry's spokesmen, 'is too big a thing to be Imperial in its trade field We must keep our foreign connections as well as our British, or jettison half our production In bargaining

[1] For the legal and historical position with regard to trade treaties see above, vol i, p 39 f, vol ii, pp 82–4

[2] On disputes and negotiations with Belgium, Italy, France, and Czechoslovakia see Copland and Janes, loc cit.

[3] I draw on the well-informed and wise paper prepared by the late Mr. C H Hawker for the British Commonwealth Relations Conference, 1938

> with Britiain with the preference bait for the minor products of Australia, we are filching from the wool trade our main support, that foreign reciprocity which is essential to its existence.'[1]

Was the wool trade really Australia's main support? That is perhaps putting the position too simply. Wool accounted for something between a third and a half of the total value of Australia's exports, according to the fortunes of prices and the seasons. Historically and economically it could fairly be regarded as Australia's basic industry. But it did not *directly* count for so much in the make-up of Australian society. It was an industry widely dispersed through the sparsely settled low-rainfall country. From the point of view of Australia's future progress in utilizing rainfall and irrigation opportunities, from the point of view of the civilized rural settlement which already existed, it might be argued that the commodities sheltered by imperial preference—meat and butter and fruit and wine—were also basic. In truth, Australia could not afford to neglect either her sparse-pastoral industries or her close-settlement industries. a balanced commercial policy was incumbent upon her. But she had tilted the balance much too far—the wool industry was right to insist upon this—against the unsheltered sparse-pastoral interests. The ill-will which she had created by her egotistical tariff policy and by its projection into the Ottawa system threatened to add still another motive for that intense research into substitutes which was taking place in many countries and was threatening raw wool with the disastrous fate of raw silk.[2]

Should not Australia as a matter of urgency take positive measures to bring back the foreign buyers who had left her wool sales? Some of these foreign buyers had been driven away, not merely by ill will, but by a positive lack of the means of purchase Whether by a plan or by unplanned necessity, they had so constructed their economies that they could obtain the means of purchase only by direct sales of their own products in the Australian market Should not Australia meet their special needs? Some spokesmen of the wool industry now began to tread on dangerous ground. They invited the government to 'divert' Australia's imports from 'bad' customers to 'good'

[1] Copland and Janes, op cit, Doc 119

[2] Raw silk was in 1932 32 per cent, in 1936 36 per cent of its 1929 price But wool was not so vulnerable to substitutes as silk was to rayon, otherwise its fate would have been similar Greasy merino wool was in 1932 48 per cent, in 1933 59 per cent, and in 1936 78 per cent of its 1929 price It should not be concluded from the text above that wool is confined to the sparse-pastoral country, progress in the wheat-growing areas has constantly been accompanied by progress of sheep-raising in the same areas

customers—more particularly to customers who would buy Australia's wool[1]

The Commonwealth government pointed out the danger of such a policy, yet almost immediately it stumbled into this very danger: not on behalf of wool, but with a confusion of motives—to correct a deteriorating balance of payments, to help Australia's nationally protected industries, to win a continuance or increase of British favour for the close-settlement industries which were sheltered by imperial preference. The trade diversion measures which the government announced on May 22nd 1936 appeared to be a sudden and total relapse into the casual unreflecting narrowness and egoism from which its tariff and trade policy had to all outward seeming broken away. The new tariffs and the severely restricting import licences were not the sequel to any recommendation by the Tariff Board, nor were they in accord with any clear and consistent principle, even if it were an erroneous principle. They were aimed at two very different members of Australia's trading connexion, the United States of America and Japan. The knock which the government gave the Yankees won applause both from the nervous close-settlement interests which thought it opportune to ingratiate themselves with the consumers of Great Britain's industrial cities, and from the protectionist manufacturing interests which wanted shelter for new ventures, such as the production of motor-car chassis If the government chose to regard foreign trade as a discriminatory bi-lateral give and take, it had good reason for striking at the United States: in the year 1934 that great country bought from Australia only one-sixth of what it sold to her.[2] But the bi-lateral argument, if the government had really believed in it, would have prompted a curtailment of Australia's British imports also; for taking all the items into account Australia had an adverse balance of payments with Great Britain[3] And what about Japan? Japan's sales to Australia had certainly risen very rapidly, but her purchases from Australia were

[1] Copland and Janes, op cit, Docs 119 and following The diversion most discussed in the press was a barter bargain of 'wool for cars' between Australia and Germany

[2] Both in its incoming and outgoing America's trade with Australia had fallen since the depression and the Ottawa agreements Australia's imports from the U S. were 25 per cent. of total imports in 1927 and 13 per cent. in 1934 the corresponding figures for Australian exports to the U.S were 6·3 per cent. in 1927 and 2 1 per cent. in 1934.

[3] Professor D. B. Copland (loc. cit) calculates on all items (not, of course, merely on exchange of goods) an adverse Australian balance with Great Britain in 1934–5 of £14,000,000, which had to be met out of favourable balances with other countries—not least of which was Japan

a much more important item of the trading account. In 1927 Japan's contribution to Australia's imports was 3 per cent., and in 1934 it was 6 per cent.; her contribution to Australia's exports was 8 per cent. in 1927, and 12½ per cent. in 1934. In 1934 Japan was taking a quarter, in 1936 she was taking almost a third of Australia's wool export, as a growing customer who now stood not far behind Great Britain, her bidding at the wool sales was an important factor in sustaining prices. Obviously, Australia was unable to invoke the bi-lateral argument against Japan, that argument worked the other way Australia's business with Japan was an example of triangular trade, and one which had its importance for the economy of Great Britain no less than for that of Australia. For, whatever might be the resentment of British manufacturers at the advance of foreign competitors in the Australian market, British bond-holders and the financial guardians of the British balance of payments had a desire that Australia should not default on her debt And it was only by maintaining reasonable relations with her foreign trading partners that Australia could accumulate with some of them (and notably with Japan) the surpluses which she must thereafter transfer to London

Why then did Australia permit the policy which she had designed for 'bad' customers to disturb her relations with a 'good' customer? Because she was nervously apprehensive of losing the goodwill of her 'best' customer. Government spokesmen declared again and again that this was their motive. Great Britain, they reiterated, was still the best market for wool, and was the only market for the 'difficult selling commodities' of the close-settlement areas.[1] To whatever extent the Japanese might increase their purchases of wool and minerals, they could not make good to Australia the loss of markets which took, not only these commodities, but also dairy produce and fruit and meat and wine. And it did really seem to the Australian government that Japan's frantic drive for exports (Australians did not understand the needs and fears by which Japan was driven) was putting into jeopardy that reciprocal relationship between British factories and Australian farms which had grown out of history and had recently become—with the qualifications demanded by Australian and British protectionism—the basis of the Ottawa pact How much of the market would be left for Lancashire if the flood of textile imports from Japan were not dammed? And what would Lancashiremen say if Australia allowed them to be crowded out? The noisy recriminations of 1934 may well have implanted in the minds of Australian farmers and politicians an abiding

[1] Copland and Janes, op. cit., Docs. 141, 144.

fear of Lancashire's grocers and housewives. In 1936 the government took action which was 'warmly appreciated in Lancashire'.[1]

Australia's quarrel with Japan clearly arose out of her attempt to carry out with logical completeness the theory which had been consecrated at Ottawa—the theory of imperial preference and a sheltered imperial market. The theory broke down, when it was pushed to an extreme; and the reason is plain. The shelter could cover little more than a quarter of Australia's exports It could not cover her chief export, wool. The attempt to make the shelter water-tight for the close-settlement products had the effect of thrusting out the sparse-pastoral products into dirty and dangerous weather. The Australian people were compelled to realize that the external world might very soon call their bluff—if they were foolish enough to persist in it—as monopolist wool-producer. The Japanese stopped buying Australian wool, they bought elsewhere the essential minimum which they could not for the time being do without, they planned future production in Manchuria, they speeded up their search for substitutes and encouraged the same search among other people. Australia's retaliations brought her scant comfort, a small economic power cannot hope to defeat a large one in the ruinous war of punitive stroke and counter-stroke. The wool interests of Australia now organized themselves to fight a more vigorous battle than their traditional political detachment had ever before permitted them to fight. They made clear to the people and to the government how close was the correspondence which existed between their own particular interest and the general interest of the Australian economy. Yet the settlement which Australia finally reached with Japan was based on Australia's need to safeguard, so far as the difficulties and contradictions which beset the trading nations would allow her, both her sheltered and unsheltered industries, both her close-settlement producers and her sparse-pastoral producers For the sake of the former, she imposed quota restrictions upon Japanese textiles. For the sake of the latter, she mitigated the rigour of these restrictions. It was a compromise arrangement, and—as was usual in Australian history—it was wool which had to pay most for the compromise. In 1935–6 Japan had taken nearly one-third of Australia's wool-clip, by the second of the short-term arrangements which Australia made with Japan the latter's purchases amounted to about one-sixth of a normal clip.[2]

[1] *The Economist*, 30th May 1936, quoting the President of the Manchester Chamber of Commerce

[2] The first temporary agreement was made in December 1936 for a duration of eighteen months, it was renewed in July 1938. Under the renewed agreement the Japanese issued permits for the import of Australian wool equal to two-thirds of

The wool-growers could but console themselves with the thought of how much worse the ending might have been. Japan was doing business with them again, even if it were only reduced business.

Might it be possible to persuade other nations to increase their business? What of the United States, the other trading partner with whom Australia had quarrelled? As a result of this quarrel, Australia shared with Germany the distinction of being one of the two nations which the United States had black-listed for exceptional discriminatory treatment. By removing its discriminations against the United States, Australia recovered most-favoured-nation status early in 1938 By this time the negotiations for an Anglo-American trade agreement were considerably advanced Australia kept in close touch with both the negotiating governments Supposing their trade agreement should lower the American barriers against English woollens? Supposing the wool manufacturers of America should demand thereafter reductions in the high protectionist tariff against their raw material? This way there would be great hope of a growing trade . . At every faint gleam of opportunity the wool interest campaigned for a revival of world trade It never refused battle against the forces which urged national restriction and a combined imperial warfare against the foreigner It fought this battle manfully and not altogether vainly at the British Empire Producers' Conference which met at Sydney in March 1938.[1]

By 1938 the Australian government was in the mood for a critical summing-up of its experience of the six years since the Ottawa Conference Australian summings-up are frequently very valuable ones, for the Australians have a habit of trying out the various possibilities of action by a series of rushes which enable them after a while to put together a good working sketch-map of the whole *terrain*. In careless confidence they hurry along an easy-looking path

total wool imports But the Japanese import of Australian wool fell from more than 500,000 bales under the first agreement to less than 400,000 bales under the second In both agreements the quota assigned by Australia to Japanese textiles was 51 2 million square yards of cotton piece goods and 51 2 million square yards of silk piece goods Under the second agreement Australia might review these quotas if Japan's import of her wool fell short of 267,000 bales

[1] See *Report of the Proceedings of the British Empire Producers' Conference* (Sydney, 1938), pp 8–10, 13, and debates *passim* The organizing committee had sought to smooth over the conflicts between British and Dominion farmers by demanding that 'The sale of Empire products in the markets of the Empire must be fully protected' But Sir Reginald Dorman Smith, speaking for the National Farmers' Union of Great Britain, revealed that British farmers were prepared to invoke heavy penalties against Dominion farmers who produced too efficiently and cheaply The Conference reaffirmed the 'Ottawa order of preference' But it also passed a resolution on the need for reviving world trade

until suddenly they bump against a hard wall; their protests and lamentations are loud, but soon with the same careless confidence they try another promising path, and probably with the same result, after three or four of these experiences they grow as wary as they are persistent, and ask of every path—'Where will this one take us? How far can we follow it? Is it really blocked, or can we find some sort of a way round?' Since Ottawa they had bumped in turn against Great Britain's agricultural protectionism, against her interest as a world creditor and trader, against Lancashire's will to keep on living, against Japan's will to keep on growing, against would-be autarkies like Italy, against liberal traders like Belgium, against protectionist America, against the boomerang-return of their own protectionist excesses. At the end of it all they were still cheerful; they had collected a few bruises and a store of shrewd wisdom. This wisdom found expression in a 'memorandum of conclusions' on which they agreed with the British government in 1938.[1]

This document, it must be admitted, fought shy of concrete detail; but it stated certain irrefutable facts and general principles with a far more honest and far broader realism than that which had hitherto been evident. The governments of the United Kingdom and Australia reaffirmed the vital interest which both shared in their reciprocal partnership in the political, strategical, and economic spheres· as for the last, the United Kingdom was the greatest market for Australia's primary produce, and Australia was not only one of the greatest customers for United Kingdom goods, but was also 'the domicile of the largest amount of United Kingdom capital invested in any single overseas country'. In view of their vital complementary interests, the two countries reiterated their strong attachment to the principle of imperial preference. But, for the first time in their history, they severally and simultaneously recognized the fact that their complementary interests, however vital they might be, were only a part of the general interests of each of them, and that the part must be fitted to the whole. Closely linked though they might be in the same system of economic and political necessity and purpose, each of them possessed energies which demanded for their healthy activity a definitely domestic care, and other energies which could only realize their full creative power in a wider pattern of activity than that which the British Empire offered. Their attachment to imperial preference must therefore be

[1] Cmd 5805 of 1938 *Trade Discussions between representatives of His Majesty's Governments in the United Kingdom and the Commonwealth of Australia. Memorandum of Conclusions.*

qualified both by their separate protective policies and by their individual policies as world-traders. As to the first qualification, the Australian government recognized that Great Britain had a right to give substantial meaning to the slogan 'United Kingdom farmer first', and accepted more frankly than it had ever done before 'the necessity for the United Kingdom to safeguard and develop her own agriculture'. The government of the United Kingdom in return recognized that an expansion of primary production could not by itself support the necessary increase of Australian population, but that Australia must push ahead in 'the sound and progressive development of Australian secondary industries'. As for the second qualification, Australia recognized (it was the first time she had publicly and frankly done so) that the United Kingdom's interests 'as a great international trader, investor, and shipowner', no less than her national agricultural policy imposed an 'upward limit' to the opportunities which could be afforded to Australia's primary producers in the British market. It followed that Australia had to hold and develop her markets elsewhere. Both governments confessed the insufficiency of imperial preference for their separate trading needs, and agreed to support each other in their attempts to make trade agreements with foreign countries

. . . .

After six years of education in the real meaning of the word 'market', the partners of Ottawa were learning that the Ottawa phrases of goodwill towards the wider society of world commerce should have a place, not merely in the perorations, but in the programme The nations of the British Commonwealth had been great preachers of the word, might they not improve upon their performance as doers of it? But how and where to begin? They were entangled in a network of confusions and contradictions, many of which were not of their own making. The prospects of a general attack upon commercial and financial barriers seemed poor The World Economic Conference of 1933 had been called together for this general attack, it had failed signally. In 1937 M. van Zeeland, under commission from the British and French governments, produced a 'pact of economic collaboration' to be put into force by the agreed leadership of the principal economic powers. But what if these powers would not agree? Was it possible to hope that the masses of people in every country would some day compel their governments to agree? It was with this idea in mind that Australian enthusiasts, mingling a genuine humanitarian fervour with their country's self-interest as a food-producer, carried to Geneva the propaganda

about nutrition and health which they had helped to spread in Great Britain. But this propaganda, even if it should spread into the continental autarkies, would take a long time to produce definite results. For the present, the attempt to achieve a freer international exchange of goods must express itself in trying out the smaller practical opportunities which offered themselves. At Ottawa, the nations of the Commonwealth, while professedly organizing themselves as a lower-tariff club, had in the name of their most-favoured-nation rights warned regionally grouped nations in Europe not to form low-tariff clubs of their own. Great Britain had imposed a veto on the efforts of the small economic powers of north-eastern Europe to clear out the channels of trade among themselves by means of preferential agreements to which other States might accede. But these States, with the discretion taught them by experience, were trying once again to concert their comparatively liberal economic policies. Perhaps Great Britain and her Ottawa associates might be prevailed upon to relax just a little their stiff insistence on their most-favoured-nation rights?[1] The van Zeeland report recommended this course of action. It also approved a quite different attack on trade barriers, an attack which would make use of the most-favoured-nation clause. This was the Anglo-American trade negotiation. The United Kingdom and the United States between them bought 28 per cent of the world's imports and sold 24 per cent. of the world's exports, if the trade of the whole British Empire were combined with that of the United States, the total amounted to over 40 per cent. of the entire foreign commerce of the world. Communities of such great commercial importance could surely by an agreement between them do something substantial to help world trade Both countries were already bound to each other and to France by the monetary agreement of 1936, which had been designed (it remained a mere design) to prepare a drive against excessive tariffs and quotas. Neither country had adopted any of the more rigorous state controls upon private trading enterprise Both countries had, with only a few evasions, remained faithful to the principle of trading impartiality embodied in the most-favoured-nation clause.[2] An agreement

[1] See above, p 221 f On the two Oslo agreements and the abortive Ouchy agreement, see H V. Hodson, *Slump and Recovery* (Oxford University Press, 1938), pp 161-2, 162–4

[2] The benefits of the trade treaties negotiated by the U.S since 1934 are not limited to those countries to which the U S has pledged most-favoured-nation treatment, but are extended to all except those who have been listed as discriminators against U.S commerce. Only Germany and Australia have been so listed, and Australia was taken off the list in February 1938.

between them, therefore, could hardly fail to bring some benefit to other nations.

The United States appeared willing to negotiate an agreement For seventy years, saving one fleeting relapse to liberalism in 1913, the country had been piling its tariffs ever higher; the work reached its dizzy climax in the Hawley-Smoot tariff of 1930. But 1934 seemed to mark a definite swing in policy The Trade Agreements Act of that year began a new departure in tariff form and in the method of tariff making Hitherto the tariff had been of the autonomous type, with a single schedule of rates, it had not, therefore, lent itself to the processes of international tariff bargaining, to which in fact the Americans were almost complete strangers.[1] But the act of 1934 put into the hands of the President wide powers of initiative in treaty making; in particular, it permitted him to vary tariff rates by 50 per cent either upwards or downwards, and freed him from the fear of senatorial or congressional obstruction. Armed with these powers, the administration made within a few years agreements with seventeen countries which between them accounted for 36·8 per cent. of the export trade and 41·1 per cent of the import trade of the United States Public opinion approved of, or at least acquiesced in, the new Act, there was little opposition when the time came for its renewal It is true that the seventeen trade agreements had done little more than nibble a few pieces out of the Hawley-Smoot tariff. But the Administration plainly desired to achieve something more positive It was in the sphere of Anglo-American trade relations that it saw the great opportunity and the great challenge Between 1929 and 1937, while the percentage of British exports which went to the United States (roughly 6 per cent. of the total) had not changed, the percentage of American exports which went to the United Kingdom had fallen. Empire countries had to a considerable degree displaced the United States in the British market. In 1929 the United States supplied 16·1 per cent. and Empire countries 29·4 per cent. of the United Kingdom imports, in 1937 the United States supplied only 11·1 per cent. and Empire countries 39·4 per cent of them. This shifting of the channels of trade had begun before the Ottawa Conference and even before the United Kingdom's Import Duties Act, and in the years after Ottawa other causes than British tariff policy and imperial preference were helping to produce it. But British protection and imperial preference did, undoubtedly and emphatically, work to the

[1] The only significant exceptions were the reciprocity treaties—with Canada (1855–66), with Hawaii (1870–1900), and with Cuba (1903–34).

detriment of American trade. Many responsible Americans believed that their country had by its own policy brought these evils on its own head.[1] They hoped that a trade treaty with the United Kingdom would substantially mitigate the evils by substantially modifying the policy A far-reaching agreement would bring great advantages to American export trade But the advantages would have to be paid for, and protectionist interests were certain to oppose the payment. On both sides of the Atlantic manufacturers let loose a vigorous propaganda against foreign competition in the domestic market.

Alongside this propaganda and sometimes intersecting it there was an argument about the balance of payments. In order to prevent an agreement, or (more probably) in the hope of driving a better bargain, some publicists in Great Britain emphasized their country's negative balance with the United States. But, if the dependent Empire were brought into the picture, the balance of payments (largely owing to American imports of rubber and tin from British Malaya) swung in the opposite direction. It swung a certain distance back again if the Dominions were brought into the picture, leaving the final account a pretty even one [2] And of course the Dominions had to be brought into the picture. For the United States government was not merely, nor even chiefly preoccupied with the manufactured exports which had been hit by the British tariff and by the preferential tariffs of the Dominions. It was more interested in winning concessions which would alleviate the difficult position of primary producers—producers of wheat, bacon and hams, timber, lard, apples, grapefruit, barley, rice, salmon, canned and dried fruits. The list reads like a long chapter of the chronicle of Ottawa It had a plain meaning. It meant that the Dominions (in the first place Canada and in the second place Australia) held the key to the negotiation [3] The negotiation could not therefore be a single one, it

[1] See Percy Wells Bidwell, *Our Trade with Britain* (Council of Foreign Relations, New York), pp 23-5 He describes the Hawley-Smoot tariff as a 'monumental blunder' 'For by this action the United States not only took a step opposed to its own interests as one of the world's greatest creditor nations, but it also set in motion a train of events which resulted disastrously for world trade in general' Mr Cordell Hull himself stated emphatically the same point of view

[2] Bidwell, op cit, Table 10, p 17, and *The Economist*, 26th November 1938, Supplement *British-American Trade Agreement*, Table 2, p. 1 See also R I.I.A. Information Department Paper No 21, *Anglo-American Trade Relations* For press discussion of these matters, see columns of *The Times*, especially 14th, 15th, and 21st May and 8th, 19th, 25th, and 29th June—letters by Sir Richard Redmayne, Sir Henry Page Croft, Mr L S Amery, Sir Arthur Salter, and Lord Eustace Percy.

[3] In 1929 the United States accounted for 70 per cent. of Canada's imports and 44 per cent of her exports the figures for 1936 were 58 and 40 per cent Canadian and United States production competed in the United Kingdom market under

must rather be a series of simultaneous and overlapping negotiations with an association of self-governing nations. The question at issue was: how far would the members of this association consent to relax the ties of mutual preference which, after so many years of struggle, they had knotted into some sort of system at Ottawa? The United States government could not, in view of its own practice, dispute the principle of imperial preference,[1] but it was bound to take note of the hurt which the application of the principle inflicted upon American interests, and it was at perfect liberty to say, 'You must mitigate this hurt if you want the advantages of a treaty.' If in addition it was prepared to offer really substantial advantages, it would force Great Britain and the Dominions to choose between two alternatives whose conflict had been persistently glossed over in their rhetoric. They could not have at the same time all the imperial preference which suited them and the lowering of international barriers which they professed to desire.

The Dominions proved themselves ready to make some sacrifice of their preferences in order to achieve a lowering of world barriers. They would not have been ready to do this four years earlier; it was the education which their recent experience had given them which had induced a more liberal state of mind. Australia's state of mind had already been elucidated. She was now ready to talk practical business. She had never believed in the efficacy of the wheat preference, and she was ready to forgo some of the special advantages which part of her close-settlement products—notably fruit—enjoyed in the United Kingdom market. She hoped that seasonal discrepancies would mitigate this sacrifice, and in some instances completely compensate for it. In her own market, she would very cheerfully pull down the props which had supported the exporters of Canadian automobiles and other manufactures at the expense of American trade. In the American market, Australia's largest hope was for wool—not for a direct lowering of duty on the raw material (this boon might come later by a re-alinement of sectional interests in the United States) but a freer entry of English woollens, which would indirectly benefit Australian wool. The close-settlement dairy industry

practically all the heads mentioned above; some Canadian manufacturers also competed both in British and Dominion markets, where they were helped by preference. Australian production competed over a narrower field; New Zealand competed chiefly in the apple market. The chief South African exports—gold, diamonds, wool, and sugar—were non-competitive, and seasonal difference mitigated the competition of South African fruit.

[1] For a summary of the United States' own 'closed-door policies', whether by tariff assimilation or preference, see Bidwell, op. cit., pp. 44-7.

might also benefit later on as the result of New Zealand's negotiations[1] Apart from all this, Australia was ready to cast upon the waters some crumbs of imperial preference, in the faith that a growing stream of world trade would some day return to her more substantial bread

Canada was more to the front than Australia was in the negotiations with the United States, she was seeking an immediate agreement for herself. Canada's history had made her position a pivotal one. For generations it had followed a rhythm of alternating attraction to and repulsion from the United States, the recurrent spasms of repulsion were able to modify, but not to sever, the inevitable intimacies of the North American partnership The development of Canadian tariff policy is too frequently regarded as if it were primarily an aspect of Canada's constitutional and economic emancipation from dependence upon Great Britain, but it was also determined in no small measure by Canada's need to safeguard against the United States her pride of independence, whilst preserving so far as might be the profits of interdependence. The Hawley-Smoot tariff of 1930 had struck a savage blow at the latter, Mr Bennett's government had made instantaneous reply by a violent spasm of Canadian protectionism and by a strident agitation for imperial preference. The Ottawa Conference, seen from the point of view of its president and its chief promotor, signified not least a movement of defiant recoil from the United States. There had been earlier movements of recoil which impressed themselves in tariff policy. Sir Wilfred Laurier's opening move in the long-drawn-out game of imperial preference was amongst other things a retort against the McKinley tariff On the United States side, the abrogation in 1866 of the Reciprocity Treaty was in some degree a retort against Canada's first experiments in protectionism. This retort was a punishing one The period of the Reciprocity Treaty (1854–66) had been a period of almost legendary progress and prosperity for Canada, in Canadian memory it became a golden age. The free movement of natural products across the southern frontier remained an ideal to which Canada persistently clung. The events of 1930–2 did not destroy this ideal, but confirmed it Within less than a year after the Ottawa Conference, the *Winnipeg Free Press* voiced the innermost opinion. not merely of the prairies, but of the greater part of Canada, when

[1] New Zealand was most hopefully aware of the low *per capita* consumption of butter in the U S (see Sutch, op cit, p 102 New Zealand 40 lb, Canada and Australia 30 lb, U K 25 2 lb, the U S only 17 7 lb, Germany 16 5 lb). New Zealand, as 'principal supplier', would negotiate with the U S. about butter But by operation of the most-favoured-nation clause, Australia would share the benefit

it wrote: 'The United States is our natural market. There is no substitute for it, either inside or outside the Empire. Either Canada gets access to this market, or she faces stagnation and perhaps actual retrogression.'[1]

Even Mr. R. B. Bennett, who had personified Canada's recoil from the United States during the years 1930–2, was himself early in 1933 submitting to the southern attraction In April he spent four days in Washington, exploring the possibilities of a trade agreement. Liberal newspapers at once announced a Canadian 'retreat from Ottawa',[2] they were just a little premature Mr Bennett had to wait until the Trade Agreements Act had given the Roosevelt administration the power to conduct an effective negotiation, it was not until the end of 1934 that he was able to open formal discussions [3] A little later his government fell The negotiation was inherited by Mr Mackenzie King's liberal government, which was far more likely than its predecessor to push the business through On 17th November 1935 it was able to announce that it had reached an agreement with the government of the United States

The general effect of this agreement (not for half a century had there been simultaneously in both countries governments pledged to tariff reduction) was to lower the tariff wall between the two countries to the level of those happier years before Messrs Hawley and Smoot and Mr. R. B Bennett piled on their dizzy superstructures. The agreement contained particular advantages for each of the separate geographical sections of Canada, and the Mackenzie King government made the most of these advantages To the prairie provinces, anxiously seeking every opportunity to diversify the economy which they had built on wheat, the restoration of reasonably free opportunities for the export of cattle and calves was a most welcome boon almost equally welcome to them were the reductions in their farming costs represented by the scaling down of duties on American machinery, which included a halving of the tariff on farm implements The industrial provinces of Ontario and Quebec might have been expected to resent these reductions in the Canadian tariff, had it not been for the notable benefits conferred upon them by reductions in the United States tariff. The various manufacturing industries associated with the developing hydro-electric power of these provinces—ferro-alloys, acetic acid, acetylene black, and the

[1] Quoted *Manchester Guardian*, 24th February 1933

[2] *Manchester Guardian*, 27th February 1933

[3] See *Trade Negotiations between Canada and the United States*, 1934–5, Ottawa, 1935. Canadian note of 14th November 1934.

like—were given increased opportunities of expansion. There was security and encouragement for the 'new staples' of lumber and pulp and metals, which were the dynamic of a northward-thrusting frontier based on the Dominion's two mother-provinces. The extreme eastern and western sections of the Dominion also benefited from the concession on lumber, and there were reductions on fish well calculated to please British Columbia and the Maritimes. But here must end the selection from the eighty-eight items of America's tariff-reduction. Let it only be added that Canada's tariff-reduction contained something of interest to that usually forgotten animal, the consumer. He might for the future be certain of having all the year round fresh fruits and vegetables, and having them cheap [1]

Canada's history had placed her midway between two worlds, the old world of the British Empire and the new world of the United States. In the extremity and bitterness of 1930–2, Mr. Bennett had appealed to the old world to redress the balance of the new. The old world had answered his appeal very helpfully, but Mr Bennett had soon proved himself aware that Canada needed help in the new world also. Mr. Mackenzie King proceeded cheerfully to make the best of both worlds He was in the happy position of a statesman whom others are willing to pay to be of his own opinion. The changing structure of American trade (which in these years was beginning to show the import surpluses appropriate to a creditor country), and the accompanying change towards a more liberal commercial policy, made his task a comparatively easy one. He ended the tariff hostility between the North American neighbours, secured valuable concrete advantages for his own country, and at the same time retained the preferential advantages which accrued to Canada from her Commonwealth membership. For the United States did not demand the abolition of the Ottawa system, only a liberalizing of it.

Canada's intermediate position made it natural for her to take the lead in loosening the pattern which had been put together on her own soil. Her next move was with the United Kingdom In 1937 the Canadian and British governments replaced the document which they had signed at Ottawa with a new agreement. By this agreement Canada pledged herself to some important specific reductions in her

[1] Canada Treaty Series 1936, No. 9 See also · *The Economist, Dominion of Canada Supplement*, 18th January 1936, H Carl Goldenberg, 'The Canada-United States Trade Agreement', in *Canadian Journal of Economics and Politics*, May 1936, H Feis, 'A Year of the Canadian Trade Agreement', in *Foreign Affairs*, July 1937, H. A. Innis and M L Jacobson, *Agriculture and Canadian-American Trade* (Canadian Institute of International Affairs, 1936).

own tariff Still more important—in principle, if not in immediate effect—was the reduction in the number of Canadian tariff items with a fixed minimum margin of preference The existence of fixed preferential margins must always hinder a policy of tariff reduction; for it means that concessions to foreign goods must be accompanied by concessions to Empire goods large enough to safeguard their preferential advantage. If the Empire goods already enter duty free, the duty on foreign goods cannot possibly be reduced; if the Empire goods already enter at the lowest rate thought consistent with the national protective policy, the duty on foreign goods is most unlikely to be reduced. Moreover, the existence of preferential margins gives no guarantee to the Empire producer against the excesses of a national protectionist policy, he would feel much safer if the maximum rate of the preferential duty which he must pay were definitely fixed. The agreement of 1937 went a long way in substituting the system of maximum preferential duties for the system of fixed preferential margins. If imperial preference could be made everywhere to conform to this method,[1] it would much more easily be reconciled with the high aims professed but so half-heartedly pursued at Ottawa—the clearing-out of the trade channels within the Commonwealth, and the subsequent and consequent clearing-out of trade channels between Commonwealth nations and the outer world.

Canada's new agreement with the United Kingdom, therefore, marked another significant step towards the conclusion of the agreements which both Canada and the United Kingdom were seeking with the United States. The two argeements were signed at Washington on 17th November 1938. A detailed analysis of their contents is a task which does not belong to this volume, but rather to the *Survey of International Affairs* [2] In general it may be said that both Canada and the United Kingdom sacrificed real preferential advantages in each others' markets and gained real compensations in the United States market.[3] In addition, they really did do something substantial

[1] Australia, in her 1938 agreement with the United Kingdom, promised to investigate this method, but was not ready to adopt it forthwith See Cmd 5805, articles 6–9

[2] The relevant documents are printed in Cmd 5882, 5892, and 5897 of 1938. Cf the *Economist*, 26th November 1938 (Supplement) and 10th and 31st December 1938, also B. S Keeling in *Political Quarterly*, January–March 1939, and *Survey of International Affairs, 1938*, Part I, section (ii) (*b*).

[3] Canada consented to the abrogation or modification of her preferences in the British market on wheat, apples, pears, honey, timber, salmon, and patent leather prominent among her concessions to the United States was the stabilization of duty (or free entry) on motor-cars, coal, petroleum, and raw cotton. Important United States concessions to Canada were the maintenance of free entry for wood pulp and

to clear out the channels of trade, both for themselves and for others. *The Economist*, after a careful examination of the schedules attached to the two treaties, concluded that they constituted 'the largest operation in trade liberalization that has ever been undertaken'.[1] It was in those days something new for three nations to agree with each other to lower hundreds of duties without increasing a single one, and in doing so to pass some of the benefits on to others by operation of the most-favoured-nation clause Such an event was bound to increase 'the general volume of trade moving around the British-American triangles'. The movement of trade around these 'triangles' was an international movement What then had happened to the ideal of imperial self-sufficiency?

Experience, perhaps too late, had killed an illusion Ever since the first Colonial Conference of 1887, fervent prophets had been demanding a refashioning of the Empire's trading activities which would bring them into close conformity with the Empire's political pattern. At last, in 1932, these faithful prophets beheld throughout the whole Empire governments which would listen and obey. The governments did their best at Ottawa. They achieved positive results at Ottawa But the results achieved were totally incommensurate with the results prophesied They learnt this in the years which followed Ottawa Experience then taught them that the Empire was insufficient for their trading needs, not because their productive energies were weak, but because they were strong. The insufficiency of the Empire might signify in certain Dominions a shortage of population, but in no Dominion did it signify a shortage of commodities It was the abundance of commodities and of the capacity to increase their production which convinced one Dominion after another that it was folly to endanger the wider opportunities of world trade for the sake of smaller quasi-monopolistic advantages within their own narrower circle. Australia was taught this lesson by a threat to her basic industry, wool growing. Even New Zealand, the Dominion whose economy was most closely fitted to the sheltering British market, learnt during the anxieties and conflicts which followed Ottawa that the British market was ceasing to be a sufficient outlet for her productive energies Great Britain and the Dominions

newsprint, the conventionalization of the duty on whisky, and the reduction of the duty on nickel.

The most important sacrifice of United Kingdom preference in the Canadian market affected the steel industry, and there were concessions to United States producers in the British market The most important British gains in the American market affected cotton, wool, and linen textiles, earthenware and glass, metal goods, whisky

[1] *The Economist*, 31st December 1938, p 703.

learnt together that the sheltered markets which they could provide for each other would accommodate only favoured sections of their industry, and that these sectional shelterings, if exploited too greedily, might become a drain on their general economic vitality And what was the effect upon the Empire's political strength? The prophets of imperial preference had argued incessantly that their policy was the royal road to a consolidated and mighty Empire Six years after the Ottawa Conference, this confidence was badly shaken. The prophets had always asserted that imperial economic policy was the Empire's own affair, if other nations felt aggrieved by it, let them set to work to make empires of their own [1] Other nations followed this advice and set to work with a will, unfortunately, their setting-to-work soon became a plain threat to the survival of the British Commonwealth For political as well as for economic reasons, it became essential to revise the Ottawa policy. It was not only foreign trade, but foreign good will, which Great Britain and the British Commonwealth sought to gain by the trade treaties with the United States of America

A very wise civil servant had declared before the war of 1914–18 that the survival of the British Empire depended, not merely upon naval power, but on the Empire's willingness to harmonize its interests with those of the great majority of nations [2] He believed that Great Britain's policies of national freedom and economic impartiality had achieved this harmonization. The principle of national freedom continued to inspire the development of the British Commonwealth after 1918. But the British Commonwealth in 1932 attempted to build its separate protectionist policies into an organized imperial system. It was not merely the economic results of this attempt, but its political results, which began after a few years to produce misgivings. By 1938 the nations of the British Commonwealth had begun a new attempt to shape and adjust the imperial pattern of their trade policies to a wider world order

V

Wealth, Welfare, and Power

What would the new world order be? It certainly would not be the Great Commercial Republic of Adam Smith's theory and of nine-

[1] L S Amery, *The Forward View* (Geoffrey Bles, 1935), p 250 'Those who want such an Empire must win it for themselves' Mr. Amery declared, however, that there was an alternative to war Germany, for example, might make preferential agreements with countries like Holland and Belgium (not Great Britain) and thus secure a real partnership in their Empires

[2] Sir Eyre Crowe see preface to this volume

teenth-century experience, the mobile world-wide society of migration and commerce and investment which free economic enterprise had fashioned. Free economic enterprise had long been troubled by its own inner imperfections and unresolved contradictions, the State, intervening as often as not under the plea of correcting the imperfections and resolving the contradictions, was entangling economic activity in new contradictions of the most formidable order Neither in theory nor in practice was state intervention new; but the almost unlimited scale on which some governments were now applying it, and the resources which they possessed for making their will effective, were certainly new.

Economic society and political society were out of scale with each other. The whole world was drawn together by ties of economic partnership, but separate territorial sovereignties had charge of the political controls The impulses which prompted their exercise of power had been stated a century earlier in List's polemic against Adam Smith, the 'national system of political economy' was in revolt against 'cosmopolitical economy'. Our problem is to discover whether or not the revolt was making marked headway within the Commonwealth itself. In theory, the Commonwealth was an association which was founded both upon the principle of nationality, and upon a denial of its absolute value. It insisted not only upon the national right of its members, but upon their national obligation to the Commonwealth and to the wider family of nations. What were the economic implications of this political ideal? How did it stand in relation to the changing economic situation of Commonwealth nations? How did it stand in relation to their changing economic practice and ideas?

The teaching which economists had imparted in a simpler and more confident age still served generally as the system of reference by which the nations of the Commonwealth adjusted their economic ideas and plans. In the centre of that system stood the theory of international trade, and in particular the concepts of a single market price and diverse comparative costs of production. These concepts were still indispensable to the economic historian of the British Commonwealth. They explained how Australia had been built on wool, New Zealand on frozen meat and butter, the prairie provinces on wheat. They explained the historical bonds which had joined each of these productive areas to the economic metropolis of Great Britain and to trading partners outside the British Empire. They explained the ebb and flow of the economic tides which brought prosperity or depression to each Dominion. They explained in broad outline the

task which the guardians of each Dominion economy still struggled to perform—the task of adjusting local costs to world prices But they did not explain everything Long before the nineteenth century came to a close, industrial protectionism in the Dominions had challenged the regulative supremacy of world prices and comparative costs. In the twentieth century, agricultural protectionism in Europe repeated the challenge and emphasized it The nations of the Commonwealth were being compelled both by their own practices and by the practices of other nations to modify increasingly the rules of economic adjustment which had governed their growth

During the fourth decade of the twentieth century, market price and comparative cost could no longer be regarded as the generally accepted regulator of the world's economic energies The advance of science had reinforced the revolt of national sovereignty against cosmopolitical economy It had increased the sum total of economic resources which politicians could play with, it had at the same time narrowed many of the gaps in comparative costs. It was now increasingly easy for the nations to imitate one another's economic processes; the simpler processes of textile manufacture, for example, could be established anywhere. Governments were finding it easier to demand from their peoples those sacrifices of 'opulence' which they believed or hoped were conducive to social stability and equality, or to the development of national power in war The totalitarian States were an embodied challenge to the system of economic regulation by world price and local cost. Even assuming that the nations of the British Commonwealth desired in the main still to live and grow according to the old rules, would they be able to do so? Could they continue as if nothing had happened to play the familiar trading game of price and cost, now that important partners who had once shared the game with them had dropped out of it and started a new game of their own?

As we have seen, it was not altogether a new game; nor could the Dominions justly pretend that they themselves were complete novices at it. But they had never imagined that others would start playing it with such ruthless concentration of purpose. In their turn, they began to catch a new infection of the same purpose.

The national State justified its efforts to break free of the Great Commercial Republic by the argument of power and by the argument of welfare. Adam Smith himself, that most balanced of sociological students, had admitted the discrepancy between political activity, aiming at the power of a single nation, and economic activity, which increases 'the wealth of nations', he had also admitted

that the former must in certain circumstances take precedence of the latter. But he would have been most unwilling to admit that there was any opposition between the wealth of nations and the welfare of a particular nation The 'national system of political economy' asserted that this opposition also existed. While the totalitarian States of twentieth-century Europe were justifying their economic measures chiefly by the power argument (guns are more important than butter), the overseas democracies of the British Commonwealth were using the welfare argument to justify the tentative and hesitating steps which some of them were taking along a road which superficially seemed similar In western Canada, in New Zealand, ordinary men were protesting that they would no longer submit to having their lives regulated by the impersonal price signals of international commerce They appealed from the market price to something which they called a 'just' price.

The revolt against the impersonal international price system was a product of economic adversity There was little complaint against the system when its signals encouraged producers to bend their backs to the work. But the system seemed inhuman when its signals warned them to curtail production It seemed to take no thought of the men who were put out of work or the borrowers who were broken by their load of debt When prices were rising, there was always a time-lag before wages began to follow them, there was not much of a time-lag before wage-earners lost their jobs in a time of falling prices. Or if, as sometimes happened, producers were slow in obeying the warning signals, their last state and everybody else's became worse than their first. In good times a rising price-level got little praise for the benefits which it carelessly scattered, in bad times the common man cursed the falling price-level for its capriciousness and callousness Must he always submit to its dictation? Was it just that human life should be kicked about like a football in the game of supply and demand? Should not all the members of every efficient and hard-working community be guaranteed a 'fair and reasonable' return for the labour of their hands? In phrases like these the Australians, at the beginning of the twentieth century, had appealed from economics to ethics, from 'the higgling of the market' to distributive justice[1] Thirty years later, the same thoughts and phrases elaborated themselves in the mathematical affirmations, so fervent, so simple, so elusive, and therefore so fascinating, of the Social Credit sect. The new gospel captured a province of western

[1] These phrases occur in judgements of Mr Justice Higgins, first President of the Commonwealth Court of Conciliation and Arbitration.

Canada, its banner of protest symbolized the bewilderment and hurt of Alberta's debt-encumbered farmers. In Australia and New Zealand the same gospel found many listeners But the listeners were not quite convinced. They had their own individual radical tradition. It was to this tradition that the New Zealanders returned when they elected a labour government in November 1935 It is the policy of this government—not partially responsible for the welfare of a province, but fully responsible for the welfare of a Dominion—which will best illustrate the tension between politics of welfare and economics of wealth, between 'just price' and market price.

This tension was not altogether a new thing in New Zealand Towards the end of the nineteenth century, when the radical governments of Ballance and Seddon were endowing the Dominion with its instruments of industrial regulation and compulsory arbitration and social lending and progressive health and pensions services, they boldly asserted that social justice must take precedence of economic law In this period the New Zealanders acquired a mental endowment which became habitual with them. 'If New Zealanders', one of their number has asserted 'can be said to have any social or economic theories, pride of place must be given to the general theory that human considerations should take precedence of economic progress, or perhaps that true economic progress can in the long run only be based upon human welfare '[1] That saving clause at the end of the sentence testifies to the long run of economic good fortune which had mitigated or postponed the conflict between the aspirations of New Zealanders and the facts of their economic situation The New Zealanders had not really been so bold as they imagined in their ethical defiance of economic law The international division of labour was the law of their own progress, there was no need for them to challenge it when a little intelligence in distributing the benefits which it showered upon them was sufficient to secure 'fair and reasonable' conditions of living for them all The general trend of prices from 1890 to 1930 (coinciding as it did with technical advances in refrigeration, transport, and farming methods) made their situation sufficiently comfortable. In the political make-up of the country it was the farming interest, highly favoured by the electoral law,[2] which held the balance. The farmers were proud of their pioneering tradition, proud to think of themselves as the backbone of the country Provided

[1] J B Condliffe, *New Zealand in the Making* (London, 1930), p 364

[2] There was a 'country quota', by which a fictitious 28 per cent was added to the rural population before the Dominion was divided into electorates on 'an equal population basis'

that costs were not piled too heavily against them by increases in the tariff (and their political weight was sufficient to prevent that) they did not take it amiss that the government's welfare policies distributed among less-favoured classes the wealth which they brought into the country by playing the game of world prices. On the whole, they did very well for themselves by playing the game.

But the price collapse of the early nineteen-thirties dealt the New Zealand farmers and most other classes of the community a dirtier blow than any which they had ever received before or conceived to be possible. It was the grass-lands, the industries which depended upon the sheep and the cow, which received the direct impact of the blow. But these industries were the foundation of the economic structure In 1928 farm production was about 65 per cent. of New Zealand's total production The export of pastoral products was about 92 per cent. of New Zealand's total exports The collapse of export prices instantly transmitted the world slump to New Zealand, and shook her whole economic structure.

To fend off the hurricane and repair the damage which it had already caused, the New Zealand government adopted the traditional defensive measures, tempered by some experiment. Tradition enjoined a deflationary policy which would cut costs proportionately to the fall in prices, experiment aimed at mitigating the pressure of prices upon costs by lowering the exchange value of the New Zealand pound. As experimenters, the New Zealanders were slower and less daring than the Australians The traditional deflationary elements in their programme of defence were more strongly marked It was a programme of 'all round sacrifice'.[1] It directly attacked wages, and made it easier for employers to attack them by removing the protection of compulsory arbitration which wage-earners had possessed for more than forty years. It directly and indirectly attacked the fixed charges of public and private debt (here the experimental side of the programme tempered the traditional deflation, which was wont to

[1] See *New Zealand Report of the Economic Committee, 1932*, p 25 Other basic official documents for the study of depression and recovery in New Zealand are the *Report of the National Expenditure Committee, 1932*, *Report of the Monetary Committee, 1934*, *Report of the Tariff Commission, 1934*, *Report of the Dairy Industry Commission, 1934* See also W B. Sutch, *Recent Economic Change in New Zealand*, H Belshaw, *Recovery Measures in New Zealand* (Wellington, 1936), Belshaw, Williams, and Stephens, *Agricultural Organisation in New Zealand* (Melbourne, 1936), and *Contemporary New Zealand*, written by various authors for the British Commonwealth Relations Conference of 1938 The difference between the New Zealand programme and the Australian (which also aimed at 'equality of sacrifice') cannot be closely examined here. It was a difference, not of principle, but of degree and of balance; none the less, the difference in certain important respects (e g time and extent of exchange depreciation) was not negligible.

concentrate the impact of adversity upon producers for export) and secured a large reduction in the rate of interest. It cut public expenditure and shut down public works. Governmental borrowing was for the time being out of the question, but the government might have sustained purchasing power by a policy of deficit finance.[1] Instead, it strained every nerve to achieve a balanced budget. In 1934–5 its efforts were rewarded by success It had brought the patient round By the end of 1935 a leaner and tougher New Zealand found herself in good economic trim But there had been a heavy cost to pay in social welfare. A flotsam and jetsam of discouraged and unhappy humanity was still drifting aimlessly around New Zealand's cities and along its roads Now that the struggle for economic recovery had succeeded, a reaction set in Need New Zealand ever again go through the same experience? Must she for ever submit to the impersonal pressure of necessity transmitted from that outer world to which she was bound as producer, trader, and debtor?[2] The labour party pledged itself to inaugurate a new age of national economic independence and personal security It promised

> 'to organize an internal economy that will distribute the production and services of the Dominion in a way that will guarantee to every person able and willing to work an income sufficient to provide him and his dependents with everything necessary to make a "home" and a "home life" in the best sense of the meaning of those terms'.

Year by year the labour government solemnly repeated that pledge[3]

The once-radical democracies of Australia and New Zealand had often been reproached or complimented in recent years as pioneers who had grown tired or grown wise. The labour government of New Zealand called to life again the earlier radical tradition Its 'policy of bringing happiness and prosperity to all' reached its climax—

[1] Looking back, it is easy to see now that this would have been sound policy. London funds piled up uselessly through lack of purchasing power in New Zealand.

[2] H Belshaw, 'Stabilization in a Dependent Economy', *Economic Record*, April 1939 Every economy, he says, is 'dependent' in that it is liable to disturbance through its commercial and financial connexions with the outside world, but the following criteria are important for indicating degrees of dependence (1) proportion of external to internal trade, (2) proportion of agricultural and raw material production in export trade, (3) net annual amount of fixed overseas obligations, (4) net annual amount of overseas borrowings By all these tests, New Zealand's economy was in high degree a dependent one, and she must be correspondingly sensitive to disturbance from outside

[3] Election manifesto, quoted by the Hon. Walter Nash, *Budget 1936*, p 1 Cf *Budget 1937*, pp 8, 25 'The purpose of the Government is to bring security to all our people. . No more . no less . than equal treatment to all workers in town and country The Government looks forward to being able to complete its policy of bringing happiness and prosperity to all.'

though it was not really a climax, the Prime Minister said, only a 'substantial instalment'—in the Social Security Bill which the government published in 1938. This measure contained a list of health services and pension benefits on a scale which placed New Zealand in the forefront of welfare-distributing communities. In the previous three years, the government had already done much to improve the lot of the less fortunate classes. By a vigorous public works and housing policy, financed in part out of a special fund, it had fought unemployment. It had speedily restored to workers the rights and privileges taken from them during the depression, it had extended those rights and privileges It had restored the arbitration system in full and made trade unionism compulsory, with the result that New Zealand in 1937 contained 230,000 trade unionists as against 72,000 in 1933. It had established a working week of forty-four hours, and had forbidden employers to compensate themselves by reducing wages. It had brought city wages back to the pre-depression level, and for the first time in New Zealand's history had brought the farm labourers under the protection of public authority In the past, wage regulation had covered the seasonal labour of shearers and shed hands and the like, but it had not covered the labour of the regular farm hands. At the depth of the depression, in 1933, these men were earning on the average 17*s* 6*d* a week and their keep. The Agricultural Workers Act of 1936 made provision for their fair and reasonable needs, not forgetting their housing needs But if the State thus took care of the farm worker, what about the farmer? And what about the farmer's family? The government did not shirk this challenge Justice, if it meant anything at all, must mean justice all round--'no more, no less, than equal treatment to all workers in town and country' The farmer was a worker, though he did not earn a weekly wage The farm labourer had been guaranteed a fair wage; the farmer must be guaranteed a fair price. But it was the world market which in the past had always determined the price of farm products. The labour government's pledges were now at last raising the fundamental issues —the relation between welfare and wealth, between ethical aspiration and economic necessity, between market price and 'the just price'.

The logical sequences of a political programme are doubtless much clearer to the historian who traces them after the event than to the politician who sees the event contemporaneously as an uninterrupted stream of problems, plans, emergencies, and improvisations. It would probably be wrong to imagine that the New Zealand government consciously and sharply defined the issues, or that its promises,

pronouncements, and legislative measures expressed a consistent theory and plan. Its policy seems frequently to have been based on faith rather than on sight. In a broadcast address on the Social Security Bill, the Prime Minister declared that the State's pound for pound contribution to the benefit funds would lay upon the Exchequer 'a load that could only be borne by a country made increasingly prosperous by the deliberate policy of the Government' This statement implied unlimited faith in the power of national action: Seek ye first welfare, and wealth will be added unto you A similar faith found expression in a carefully prepared statement by the Minister of Finance

> 'To suggest the inevitability of slumps and booms,' he said, associated as they are with affluence for a limited number during a period, and followed by unemployment, destitution, hardship and privation for the masses, is to deny all conscious progressive purpose '[1]

This declaration of faith did not explain precisely how the conscious progressive purpose of a national sovereignty could free a community whose life depended upon international trade from the effects of the trade cycle Some members of the government possibly believed that welfare policies were themselves a cure for the poverty inflicted on New Zealand by falling world prices Did they not sustain purchasing power and thereby keep the wheels of industry turning? We have already seen that the government had also taken to itself extensive powers of sustaining purchasing power by central bank credit[2] But the Minister of Finance did not conceal his belief that this method of stimulating development and the production of goods, though it was an essential and an important one, had its limitations. It would be used, he said, 'inside sound financing procedure'[3]

The government hoped to support its welfare and purchasing power policies by a policy of economic reorganization It felt that New Zealand had too many eggs in the export basket, and too few markets where she could dispose of her eggs. It was alarmed, not merely by New Zealand's dependence on external prices, but by the signs of congestion and the threats of restriction in the biggest and best market. If the demand of Great Britain could no longer support New Zealand's increasing productive capacity, the Prime Minister declared, the Dominion must either find new external markets or hasten the expansion of the internal market by pushing forward the development of manufacturing industry. The Prime Minister favoured both policies, but particularly the latter, which appealed to him as a means of increasing population and of strengthening defence

[1] *Budget*, B 6, 1937, p. 25. [2] See above, pp. 197-8 [3] *Budget*, B. 6, 1938, p 24.

This trend of policy recalls the aspirations of economic nationalism in Ireland. The situation of these two widely separated countries was indeed strikingly similar. Both wanted a better-balanced economy for its own sake, both wanted it also as a means of realizing their population ambitions Both must begin their similar enterprises as countries depending basically on the production of their grass-lands, both depended upon Great Britain as the chief purchaser of their grass-land production In one respect New Zealand could begin her experiment under conditions more fortunate than those in which Ireland had begun hers New Zealand enjoyed preferential treatment in the British market, Ireland had been fighting an economic war with Great Britain, and was subjected to least-favoured nation treatment But Ireland had one great advantage which was denied New Zealand. Her strong creditor position cushioned her against the immediate rebound of her own errors, and gave her a comfortable margin of time in which she might attempt to shift the balance of her economy. New Zealand was a debtor country, she had to watch the barometer of her 'net assets in London', their movement (unless she were reckless enough to challenge the consequence of national default) would govern the pace of her experiment. Apart from these differences, the economic problem which the two countries had to face stated itself broadly in the same terms. Because of their small home markets, if for no other reason, both of them laboured under a comparative disadvantage in industrial production. But both of them enjoyed a comparative advantage in grass-land production. Their problem was to redress the disadvantage without sacrificing too much of the advantage, to develop new economic activities without unduly raising the costs which fell on the old ones. For the old ones were still fundamental The experience of the Irish, who were driven by an ancestral political aspiration and an economic dogmatism of which the New Zealanders had no conception, had already proved that. The Irish were already chewing over their experience when the New Zealanders were at the beginning of theirs. They could point to many tangible and satisfactory results of their drive for economic diversification. But their population hopes had been bitterly disappointed, their creditor position had deteriorated: costs had been piled on their export industries, while these industries—together with the British outlet for their production—still remained what they had been before, the country's most vital economic interest.[1]

[1] The Irish experience has been very fully discussed above, vol i, chapter iii, section iii Since then, the report of the *Commission of Inquiry into Banking, Currency and Credit* (Dublin, 1938) has brought together a great deal of new material.

New Zealand economists were prepared to look favourably on a drive towards industrialization, but they believed that it would not succeed unless there was an increase of industrial efficiency. Industrial efficiency in its turn depended primarily on an enlargement in the size of the manufacturing unit.[1] New Zealand factories were scattered units far below the optimum size, there were seventy-five boot and shoe factories where six or a dozen would have been sufficient, and a similar state of things existed in most other branches of manufacture. The economists therefore favoured firm government control of industrial development, with a view to repressing the tendency towards a fragmented inefficiency. This thought seemed to find expression in the Industrial Efficiency Act, 1936 which set up a Bureau of Industry and charged it with the task of 'bringing economic planning into the whole industrial sphere'.[2] The Bureau was composed of government officials together with two representatives each from the manufacturing, farming and trade union interests. Its functions were in part advisory—to make surveys of the industrial field and to submit recommendations—and in part executive—to issue licences to producers. The responsible minister might at any time direct that no person or company should engage in production in a specific industry except under a licence issued by the Bureau. Industrial committees with a strong producer representation might be set up to assist the Bureau in carrying out a licensing scheme. By the end of 1938 twenty of these schemes had come into operation. But it was difficult to see that any of the schemes had appreciably improved the efficiency of New Zealand industry. There had been no drive against the small-scale dispersal of manufacture. Some critics believed that the licensing system was tending to perpetuate the survival of inefficient units by shielding them from healthy competition.[3] In the meantime, and in despite of the government's increasing control of internal marketing and its anti-profiteering activity, the costs of production due to general government policy were rising quickly, in unpleasant contrast with the movement of Australian costs.[4] No wonder there was delay in carrying out the much-advertised plan of establishing large-scale steel works in the Dominion. The drive for industrial expansion had not as yet made a very vigorous start.

[1] *Economic Record*, June 1938, p. 58. And op. cit., June 1936, p. 47.

[2] *N.Z. Department of Industries and Commerce*, 1937, p. 24.

[3] See *Contemporary New Zealand*, pp. 71–2. The Bureau, however, protested that it was not merely 'maintaining the *status quo*'. *Department of Industries and Commerce, Report 1938*, p. 21.

[4] *Economic Record*, June 1938, p. 85.

The method of the drive, nevertheless, was extremely interesting; it enabled the government to fit the planning of home development and the planning of external trade into a single pattern of state activity. The pursuit of manufacturing expansion during a time of rising costs might seem to demand a sharp increase of tariff protection. In February 1938 the New Zealand tariff was indeed given an upward screw. But the government had no wish—probably it did not have the power—to break radically with the low-tariff tradition to which the farming community clung. It favoured an alternative method. Its intention was to reserve part of the industrial field for planned home development, and leave the rest of the field open to lightly taxed overseas competitors. In the sphere reserved to New Zealand manufacturers costs would be kept low by a specialized efficiency able to plan for a market of reasonable size, outside this sphere costs would be kept low by the old method of competitive production and sale. This was a neat idea; but it could not easily be acted upon by unilateral decision. It affected the established interests and even the legal rights of New Zealand's trading partners The chief of these partners, Great Britain, had always aimed at securing fair competitive opportunity over the whole field of industry, and it was this principle (with the rather confusing qualifications demanded by the economic nationalism of the Dominions) which was written into the general clauses of the Ottawa agreements. The New Zealand government would therefore need to secure the acquiescence of the British government before it could put this part of its plan into operation

The Ottawa agreements, together with the interests which they expressed, limited the New Zealand government's power of making another of its wishes effective. It wished to increase the sales of its grass-land production in foreign markets, and hoped to do so by the method of bi-lateral trading agreements. By pitching some of the preferential duties higher than her Ottawa pledges demanded, New Zealand had left a margin for trade-bargaining In 1935 she made a bargain with Sweden, in 1936 she made one with Greece, in 1937 she made one with Germany. in the last-named year she opened negotiations with nearly a dozen other countries.[1] But agreements of this kind could not greatly expand New Zealand's sales in foreign markets unless New Zealand was able to permit an equivalent expansion of foreign sales in her own market Failing a marked increase of purchasing power, this would mean a considerable displacement of

[1] See *Economic Record*, December 1934, p. 253, June 1938, pp. 83 ff, and *New Zealand Year Book*, 1938, p 277.

British trade for the benefit of foreign traders. This was impossible —not merely because of sentiment, or because New Zealand was bound by specific obligations, but because she depended on the British market to absorb more than three-quarters of her export production. Not until she had revised her trade relations with Great Britain would she be able to expect substantial results from her policy of bilateral arrangement with foreigners. In 1936–7 the Minister of Finance tried to persuade the United Kingdom government to meet New Zealand's wishes.[1] First of all, he asked it to acquiesce in New Zealand's industrial plans by surrendering the right of British manufacturers, subject to the agreed tariff limitations, to compete freely over the whole field. He promised that this new restriction on the classes of imports which New Zealand took from Great Britain would not mean a reduction in their total volume But at the same time he submitted a very alarming proposal for the bilateral balancing of commercial transactions between the two countries. He invited the United Kingdom to accept the principle that it should sell no more to the Dominion than the money value of its purchases from it, *minus* the Dominion's payments under the heads of interest, shipping services, and other 'invisibles', together with 'proportionate' instalments wiping out its capital debt. If Great Britain had been foolish enough to accept this proposal, she would have found her export trade to Empire countries most mercilessly slashed, for with the majority of them she possessed, if invisible items were counted, a very pronounced favourable balance of payments It was naive to imagine that she would, or could, surrender this element in her economic strength for the sake of a theory of bilateralism in which she disbelieved. Yet, despite this disillusionment, the New Zealand government seemed at the end of 1938 to have reached one of the ends which it had proposed to itself—the selective licensing of imports. The means employed was exchange-control. But it was the undesired and unforeseen consequences of New Zealand policy, not the triumphant fulfilment of a plan, which led to this result. As will be seen later, exchange-control had to come for the simple reason that there was insufficient exchange to meet New Zealand's obligations as a debtor, and to satisfy her normal needs as a trader.

The neat pattern of planned home development and planned external trade could not at the will of its designers impose itself on the complicated and stubborn material of economic circumstance. New Zealand, like Eire, still remained dependent on the British

[1] *Budget*, B. 6, 1937, p. 10

market; she might indeed have counted herself lucky that the British market gave her export trade so much more shelter than it was able to give to the trade of her sister Dominions New Zealand had found no way of escape from the game of demand and supply, of price and cost. But her government still believed that it could make the game less of a rough and tumble, that it could take measures which would save New Zealand's farmers from taking so many of the hard knocks. It believed that by an intelligent management of the business of selling it could iron out violent fluctuations of price and secure for the farmers a return which would be both steady and 'just'. Between 1936 and 1939 it was trying to prove its argument by an experiment with the dairy industry. The situation of that industry and the experiment in which it became involved will repay examination.

The basic document to start from is the Dairy Industry Commission Report of 1934. That report was in harmony with the general policy of economic recovery which the coalition government was pursuing The report rammed home the newly learnt lesson that the British market was not a bottomless one, at the same time it made it quite clear that no supplementary markets of any substance were at present available. It exhorted the New Zealanders to cling to, and if they could, improve upon the preferential advantages which they had secured at Ottawa. But it also called upon them to improve by all means possible their competitive strength The five shrewd authors of the report did not hesitate to recommend new and radical means of achieving this aim. In accordance with their recommendations, there occurred a drastic overhauling of rural indebtedness and a re-shaping of the rural credit institutions; there also occurred a marked extension of government control, working through the Executive Commission of Agriculture. But neither the committee nor the coalition government intended these measures to be a substitute for the cutting of costs, which was the time-honoured answer to falling prices On the contrary, it was the purpose of these unprecedented measures to apply the old policy of cutting costs in a form sufficiently drastic to meet an unprecedented collapse of prices. The commission insisted that the price signals must be obeyed. Some people had proposed a government subsidy to the dairy industry, the proposal was rejected Other people had proposed a scheme for meeting the losses of bad years out of the profits of good years The commission pointed out that an insurance fund must have money in it before it could begin to make payments· if New Zealand intended to establish an insurance fund for the dairy industry, it would have to wait until it could build the fund up in a time of high prices

Even if this were done, the committee doubted whether a scheme for 'equalizing' prices between good years and bad ones would work [1]

The labour government nevertheless made 'equalization' the watchword of its dairy industry policy. It embodied this policy in the Primary Products Marketing Act, 1936. Exercising the powers which the act conferred upon it, it made itself sole purchaser of all dairy produce destined for the export market It entrusted the marketing of this produce to the specially constituted Primary Products Marketing Department, which paid the proceeds of overseas sales into a special account with the Reserve Bank The Reserve Bank was authorized by statute to grant to the Primary Products Marketing Department (or to any department or board performing similar functions) overdraft accommodation to an unlimited amount. All this was extremely interesting But the crucial question for farmers, and for taxpayers also, was—what kind of price would the farmers get?

It was precisely on this question that government policy and the legislation which embodied it lacked clarity. 'Equalization' might mean one of two things it might have a strictly economic meaning as the ironing out of price fluctuations over a period of years, or it might have a welfare-and-justice meaning as the ironing out of social inequality The government intended both meanings, but its statements and legislation gave no definite clue as to what would happen if one meaning came into conflict with the other It was the first meaning, war against price fluctuations, on which the government laid most stress in its earlier pronouncements The preamble to the act also laid stress on this meaning, and the committee entrusted with the task of fixing the first year's price to dairy-farmers had merely to perform the feat of striking an average in the price fluctuations of the previous eight or ten years But the committee's task would not be so simple in years to come. It must then be guided by the instructions contained in section 20 of the Act, which directed it to pay attention, not merely to the previous price level, but to the necessity in the public interest of maintaining a healthy dairy industry, the costs involved in efficient production, the general standard of living of persons engaged in dairy production compared with the general standard of living throughout New Zealand, departmental costs, and 'any other matters deemed to be relevant'. Meanwhile, government spokesmen were increasingly laying stress on the dairy farmer's right to a fair and reasonable standard of living, on

[1] Section 152 of the report.

a basis of equality with other New Zealanders. The idea of the just price was driving out the idea of market price.

'Equalization' in the economic sense of the word did not mean a revolt against the price signals; it meant rather an attempt to respond to these signals more steadily and intelligently, instead of by the customary violent spasms. The idea of keeping in the bag some of the profits of good years in order to even up conditions in bad years was a promising idea. There was no reason why policy should not make the idea effective provided it covered the whole period of the trade cycle. To be sure, the policy would break down if it had to face, not merely fluctuations in world prices, but a steady downward trend. There was, however, a more immediate danger than that. Farmers had votes, and farmers wanted, not a stabilized economic price, but a 'just' price. That is to say, they wanted a subsidized standard-of-living price when the market price was bad, but they wanted the whole of the market price when it was good It would have needed unusual political courage to resist their importunity In the first year of the new order the government made a 2 per cent. loss on the difference between the price it paid the farmers and the price it got in London, but it did not debit the loss against future payments to the farmers After all, was it not a trial year? In the second year the government made a profit on the transaction, and was in a position to put something substantial into the bag as 'insurance' against bad years in the future. What it did was to keep £500,000 in the bag and distribute the rest as a supplementary payment to the farmers. In the third year a committee representing the government and the industry recommended a justice-and-welfare price which was not only above the market price but beyond the limit of financial prudence. The government compromised by fixing a price midway between the price recommended and the price paid in the previous year.

It would be ungenerous to exaggerate the weakness of the government; it might have done worse. But it had not done well enough to create any confidence in the capacity of the new policy to solve the problems which it had promised to solve. If 'equalization' meant the transference of income from prosperity years to depression years, the essential condition of its success was a severe actuarial detachment supported by the firmest political resolution. This condition had not been fulfilled. If, on the other hand, equalization meant justice, if it meant 'no more, no less, than equal treatment to all workers in town and country', the government was then only at the beginning of a gigantic task whose economic consequences could not

be prophesied. The government had already compensated cheese producers because their economic earnings were less than those of butter producers. Would it not in justice and in logic be compelled to compensate the whole body of dairy producers if their economic earnings became less than those of other farmers—to say nothing of city workers? But supposing that these measures of 'equalization' created a substantial and persistent deficit in the Dairy Industry Account with the Reserve Bank? According to the ethics of 'equalization', the profits of other industries—the meat industry, for example—ought then to be drawn on to make good the deficit. The new system, if it were persisted in would draw all New Zealand's industries within its control Under the old system the profitable and unprofitable employment of land, capital, and labour had been indicated by the price signals, under the new system the direction of economic activity would be determined by political decisions. This was happening in the autarkies of Europe, but their successes—assuming that they were successes—were beyond the reach of an immature economy like the New Zealand one. New Zealand had to meet every year an interest bill of about £9,000,000, and pay upwards of four extra millions on 'invisible' items of account, she had to find external markets for more than 40 per cent. of her total production,[1] her exports besides were vulnerable because they covered a narrow range of agricultural and primary products. Supposing that the total receipts from their sale fell definitely short of the total 'equalization' payments which the government made to the New Zealanders who produced them? What terms would the 'just' price make then with the market price?

Questions of this kind were inevitably being asked in 1938 and 1939 They ranged far ahead of events which had actually occurred, but they arose out of the trend of events which were already occurring. It was not only the situation of the dairy industry which was throwing into sharp relief the discrepancy between a subjective conception of welfare and the objective means of wealth The discrepancy was still more emphatically emphasized by the general financial situation. The end of 1938 witnessed the symbolical and ambitious expression of welfare philosophy in the Social Security Bill, it witnessed at the same time the rapid and ominous drying up of New Zealand's financial reserves In the middle of 1935 (the middle of the year was always the peak period) the Dominion's 'net assets in London' were £46,000,000; in the middle of 1936 they

[1] Belshaw, loc cit, estimates New Zealand's production in 1935-6 as £114,000,000, and her exports as £50,000,000.

were £43,000,000, in the middle of 1937 they were £36,000,000; in the middle of 1938 they were £28,000,000; in the middle of 1939 they were £12,000,000[1] This draining away of resources occurred in a period when the prices paid for New Zealand's chief exports could not be called unfavourable, and were certainly better than the average prices realized by Australia's exports. In 1938–9 it reached a point where the Dominion's solvency came under menace. As a result, the government had to face some of the contradictions which were contained within its policy

The first contradiction was between its liberal spending policy and the financial means which it could command. In 1939–40 the estimates for social services alone were as large as the total expenditure of 1928–9. The increase was provided for by taxation, but taxation provided only a diminishing proportion of public works expenditure. That expenditure had also outrun the capacity of internal borrowing, based upon the genuine savings of the community. In 1938–9 the government had recourse to the Reserve Bank for £14,000,000, mainly for public works. The resultant expansion of purchasing power stimulated imports and intensified the pressure on London funds The government was therefore compelled to institute exchange control in order to conserve the means of meeting the country's obligations and of financing essential imports There was, it is true, no theoretical contradiction between exchange control and the principles of economic planning which the government professed; but in practice exchange control arose out of sheer necessity, not out of principle. Moreover, it entangled New Zealand policy in other contradictions, both theoretical and practical The government was committed to a policy of industrial development and efficiency; but this policy must fail unless New Zealand, by purchase or borrowing, could secure the essential plant. It was committed to the abolition of unemployment, but employment was being threatened by the country's limited capacity to import essential raw materials. The government had promised to raise the standard of living, and it had done so, but the rising cost of living was beginning to eat into this

[1] See the very useful *Statistical Summary* issued monthly by the Reserve Bank of New Zealand, and *The Economist*, 29th September 1939. The figures are in New Zealand currency

Expenditure, £ N Z millions

1928–9	*1935–6*	*1938–9*	*1939–40 (est.)*
24 17	25 89	35 77	38 24

For 1939–40 the estimated expenditure on social services (including education and health) was £ N.Z 23 57. Taxation per head was £12. 4*s* 3*d* in 1928–9 and £25 10*s*. in 1939–40.

achievement. It had promised to eschew external borrowing and to reduce the existing burden of overseas debt, but sheer necessity compelled it, in the middle of 1939, to send the Minister of Finance to London in quest of credits. It was his immediate and pressing concern to secure the conversion of £17,000,000 of debt maturing on the 1st January 1940, to secure credits which would cover essential imports (some of which had already been specifically licensed) and to raise a loan for defence. His mission was a success Its result was to give New Zealand additional time for thinking out the relation between her internal policy and the objective economic facts of the larger world with which she was inseparably associated

There is no reason for doubting that New Zealand democracy was fully capable of performing that task Nor is there any reason for writing down the experiments of 1935-9 as a failure A few conservative and frightened souls might cry 'ruin' (they had cried it in Australia in 1931) but a country—Adam Smith has said it—will stand a lot of 'ruin'. Affairs in New Zealand had not gone altogether according to plan, human affairs seldom do. The historian, surely, is not bound to chronicle every departure from the rules of economic policy which prevailed before the great depression and the ascendancy of Mr. J. M Keynes, as if he were telling the story of the Fall of Man? Some of the changes which took place in New Zealand were inevitable, some of them were demonstrably beneficial It may be that the government which initiated them persuaded itself too easily that it was leading a new Ascent of Man Like many other governments whose policies have been analysed in this volume, it cherished some illusions. Experience was revealing to it that illusions have to be paid for If it should still cling to them too obstinately, the remedy would lie with New Zealand democracy. Democracy, like other forms of society and government, makes mistakes, but a sound and well-educated democracy continually justifies itself by learning from its mistakes. The contradictions with which New Zealand democracy was pre-occupied during the first half of 1939 were not fundamental, they were the contradictions which experiment discovers and which experience resolves

The supreme contradiction of war was now threatening New Zealand and all the other members of the British Commonwealth The debate between market price and 'just' price was after all only a little skirmish compared with the violent controversy between opulence and defence, between the Great Commercial Republic and

the nation in arms. For many years that controversy had been shaking Europe. It is desirable to refer to its effects upon economic policy within the British Commonwealth. But since the full effects will not be known until many years have passed, it must be sufficient to indicate a few general tendencies.

Adam Smith was aware of the conflict between 'the natural propensity of mankind to traffic and exchange' and the need of the nation to provide for its defence; but the conditions of his time had permitted him to set national defence on one side as an unexplored reservation to his working theory of economic society. The changed conditions of the twentieth century would hardly permit this abstraction. In continental Europe, the exceptional was becoming the normal. The 'economics of siege' were becoming a part of everyday life. Under this lowering dispensation, the signals of price and comparative cost were ceasing to regulate the world's economic traffic. '*A* must grow, not what he is most fitted to grow, but what will save most shipping space *B* must make, not what he is most fitted to make, but what can be made most easily out of local sawdust and mud.'[1] In the conditions of international anarchy which were rapidly returning upon the world, no nation, not even the most isolated one, could escape altogether from the pressure of this irrational necessity. But the pressure operated upon different nations with a differing intensity, according to their geographical situations and their natural resources and their strategic endowments The nations of the British Commonwealth, and even Great Britain herself, had considerably more elbow-room than the nations of continental Europe It might still be possible for them, except in time of actual war, to strike a tolerable balance between the claims of opulence and the claims of defence Even when the latter purpose was prominent in their minds, they might still on occasion conclude (as intelligent mercantilist statesmen had sometimes concluded) that a well-stored reservoir of general economic resources would prove in the long run a more formidable source of power than armaments which were so massive that they crushed economic and social vitality. It might certainly be argued on the other side that the list of absolutely indispensable instruments of defence was rapidly lengthening. Yet that argument could be carried too far, it could be made to prove that no nation or no empire was safe unless it could control the whole world. To tilt the balance too far against the Great Commercial Republic ended in an absurdity.

[1] See J M Robertson, 'The Future of International Trade', in *Economic Journal* March 1938

The nations of the British Commonwealth, despite some aberrations of policy, desired on the whole to maintain the system of international specialization and exchange out of which their several national households had sprung. But the stubborn element of power imposed itself upon their will, both as exporters and importers. Europe's policies of self-sufficiency constricted the outlet for their agricultural production when Italy, Germany, and France decided to pay double the market rate for their home-grown bread, wheat ceased to be 'good' on the prairies [1] Simultaneously, the *tempo* of their own industrialization was increased, not merely by their protectionist self-will, but by the necessities of the changing strategical environment in which they lived. In the decisive century of their growth, they had been sheltered (never had young nations enjoyed a more complete shelter) by the naval power of Great Britain. Air power was now threatening the centre of their sea Commonwealth Even if the influence of sea power upon history should still conform to the argument of the past, the argument might not always work out to the advantage of the Commonwealth there was the submarine, there was the possibility that new combinations of naval power might cut the Commonwealth's oceanic communications This possibility had startling implications for economic policy. During the war of 1914–18, the power argument had almost as a matter of course stated itself in the context of imperial centralization The Dominions Royal Commission had surveyed the resources of 'the Empire as a whole', never doubting that Great Britain's naval power would enable her to mobilize these resources effectively in the common cause The argument of defence therefore supported the orthodox economic theory of specialization industry, the chief function of Great Britain, raw-material production, the chief function of the Dominions and Colonies. But the new threats to the sea communications of the Commonwealth added an additional reason, and an urgent one, for the industrialization of the Dominions. No matter about comparative costs. Australia must at any cost make her own Bren guns and aeroplanes. And Canada? Physical geography and political neighbourhood made Canada secure. But by hurrying on her industrial development she could, if it was her will to do so, reinforce the security of Great Britain. For the aeroplanes which she built could fly the Atlantic Thus, though the particular strategical implications of geographical situation were never quite the same and were sometimes completely dissimilar, the economic implications were repeatedly the same. They no longer favoured a complemen-

[1] See above, pp. 163–4.

tary relationship between an industrialized Great Britain and a circle of food and raw-material producing Dominions. They favoured the economic decentralization of the British Commonwealth. They supported the 'national system of political economy' towards which, for other reasons, the Commonwealth's member-nations had already turned.

There is therefore a parallelism between the economic and the constitutional evolution of the Commonwealth in the period under review. Economic policy might well be grouped with defence policy and foreign policy under the rubric of equal status. But in all spheres the distinction between status and stature is a valid one,[1] and a principle of growth must never be confused with the mature event The historian, more than most people, is bound by his discipline to respect the time factor, and to underline the relativity in time and circumstance of the logic which operates to cause change. This book is no more than historical work, its task is to examine economic policies against the background of immediate economic fact The examination has revealed many discrepancies between the ends desired and the means available for their realization; but most of the problems which it has raised need to be further probed by the methods of strict economic analysis. During the period under review, many of the conceptual instruments of economic analysis were being re-examined and sharpened, theorists were insisting on the distinction between competition and imperfect competition, saving and investment, maximum income per head and maximum employment. Future historians will have new windows of vision into the darkness amidst which we now move. Standing farther away from the period which has now closed behind us, they will see more clearly than we can see its shape and pattern Some day a new Adam Smith will answer the questions which we cannot answer, and will enlarge men's understanding of the nature and causes of the *wealth, welfare, and power* of nations.

Meanwhile, we must understand as best we can: our generation is perforce laying such heavy burdens upon posterity that it ought not through laziness to shirk those duties which it can easily perform Though we cannot answer the deeper questions, there are many immediate questions which we can answer. Every section of this chapter records definite conclusions on matters of fact. It is a fact that Great Britain is passing from an age of 'natural increase' of population to an age of 'natural decrease': it is a fact that similar population tendencies are at work in the Dominions. It is a fact

[1] The political implications of the distinction were discussed above, vol. i, ch. v

that the age of advancing New World frontiers has closed. It is a fact that Canada is far along the road towards the status of a creditor nation, and that other Dominions are following her along the same road.[1] It is a fact that Canadian wheat and Australian wool and other staple exports cannot find adequate shelter inside a protected Empire market. We have observed significant changes in the investing habits of Great Britain. We have observed significant changes in the direction of Australia's trade. We have seen how each one of the autonomous nations of the Commonwealth, including Great Britain, has endeavoured to build for itself a more balanced economy by the protection both of manufactures and agriculture. We have examined the documents which record the attempts of these autonomous nations to reconcile their separate national systems of political economy with their wider interests as members of the British Commonwealth and the Great Commercial Republic. We have examined the contradictions in which their policies have entangled them. We have examined their efforts to resolve these contradictions.

When we struggle to get a coherent view of the landscape from which these and similar features emerge, we can help ourselves by studying the price charts. Their most significant feature throughout the past decade has been the low level of prices for agricultural products and raw materials. If any reader of this narrative has not as yet understood the catastrophic impact of collapsing prices upon the young communities of the New World, let him read again the pages which tell the story of wheat on the Canadian prairies.[2] The story of other primary industries in other Dominions is a milder variation of the same mournful theme.[3] The story of economic enterprise in the tropical Dependencies, when it is told in later chapters, will perforce repeat the theme. The institution of restriction schemes for copper and tin, for rubber and coffee and sugar and tea, has widely advertised the depressing effect of sagging price-levels upon colonial producers.

Dominion producers, as we have seen, were beginning in the nineteen-thirties to fear that the low price-levels were due not merely to seasonal accident or an unfavourable turn of the trade cycle, but to deep-seated changes in the relationship between supply and demand. On the side of supply, there were the increasing returns arising from the application of scientific and mechanical technique

[1] At the conclusion of the present war, Great Britain may be a net debtor to the Dominion of Canada (8/11/1939)

[2] See above, pp 160–5.

[3] See above, pp. 216, 243–4.

to primary production. On the side of demand, there was a slowing down of that rapid natural increase of European populations which had been so marked a feature of the previous century: there was the rapidly approaching prospect of natural decrease. No doubt there remained in Europe scores of millions of people who were undernourished. Canadian farmers were wont to say that their marketing difficulties would disappear if only these under-nourished Europeans could be enabled to eat every day an extra slice of bread; though the farmers did not say how thick the slice must be. However, the European governments were not following nutrition policies; they were following armament policies. The autarkic planning of sovereign States inflicted new calamities upon the primary producers of the New World.

It was the end of an epoch. An historian of the British Commonwealth or of European expansion in general, looking back from the year 1930 upon the previous century, might well have been content to see its unfolding achievement in the steady light of Adam Smith's reason. In the years which followed 1930 there were vast tracts of economic circumstance and struggle where that light was an uncertain guide. The old theories of international trade were breaking up, as mercantilist theories had broken up a century earlier; but it was not yet clear what would take their place. Nineteenth-century theories had fitted nineteenth-century facts Comparative costs were the reality which drove the New World frontiers forward. In 1923 the statesmen of the British Commonwealth expressed their hopes for the future in the phrase, Men, Money, and Markets; but the Commonwealth's actual history demands a reversal of this sequence—*Markets*, Money, and Men. It was the prospect of profitable prices which stimulated overseas investment and thereby endowed the Dominions (as it endowed Argentina or Brazil) with the 'permanent outfit' which was the economic foundation of their nationhood. Throughout the nineteen-twenties, despite some abrupt warnings, overseas producers and home investors still trusted the prospect of profitable prices. In the nineteen-thirties they were compelled to face a gloomier prospect. They had grown up in an age of expansion; suddenly they found themselves in an age of restriction.

In some ways they were ill prepared for their new problems. They had a plan of action ready to hand, but the plan had been made in the age of expansion For fifty years strong majorities in the Dominions and a growing minority in Great Britain had been preaching the gospel of imperial preference. At the Ottawa Conference this gospel at last became an agreed policy. This meant that the nations of the

Commonwealth had to measure with some precision the sheltered markets which they were able and willing to give to each other. Very soon they were compelled to think realistically about the commodities which could not elbow their way into the imperial shelter. The Canadians and the Australians learnt by hard experience that the export staples on which their economic systems were founded depended for health and life upon a wider market. The British relearnt the same lesson. Within six years from the Ottawa Conference, all the nations of the Commonwealth were ready to exchange some of their new exclusive advantages for the wider advantages of impartial world trade. It was this readiness which made possible the trade agreements of 1938 with the United States of America. Less than a year before the outbreak of a new war, these agreements symbolized the willingness of the British Commonwealth to take up anew the task of harmonizing its interests with those of the society of trading nations.[1]

The age of geographical expansion was over, but a new age of economic expansion might be inaugurated if human intelligence could discover ways and means of liberating new energies among the neglected classes and races, and in the depressed areas of the earth. There was a vast potential demand in the United States of America, which in the nineteen-thirties never once—not even in 1937—recovered the high levels of 1929. Canadians dreamed wistfully of a time when Europeans would all eat an extra slice of bread each day. But what of the Chinese? Or the Africans? The following chapters will deal with African problems, and it may be appropriate here to recapitulate some other aspects of Dominion experience which seem relevant to our next inquiry.

The collapse of agricultural and raw-material prices destroyed the inducement to invest in the old forms of development. It inflicted upon wide areas—most of all upon the Canadian prairies—economic dilapidation and human distress. In every Dominion it caused a general apprehension. But in no Dominion (except perhaps Newfoundland)[2] did it cause general disaster. The Dominions already possessed their 'permanent outfit'; the economic harmonies of a vanishing age had endured long enough for them to achieve a hardy maturity. They now hurried ahead faster with the plans of industrial development which they had long since been pursuing. Wherever they were able to do so, they reduced the risks of agriculture by making its production more diverse. Out of their own resources they were able to help the industries which were most sorely stricken,

[1] See above, pp. 265-6.

[2] See above, vol. i, p. 186.

while their own efforts were hastening the day of a more profitable balance between agricultural and industrial production. But how could Great Britain's African Dependencies do for themselves what the Dominions were doing? The classic theory and practice of international trade had been operating upon them long enough to disturb their primitive economic foundations, but not long enough to lay firmly the new foundations. The African peoples who had been drawn into the society of trade might justly claim some share of the society's promised blessings decent medical services and one square meal a day would hardly seem an excessive demand. But could the demand be satisfied, now that the terms of trade had changed so catastrophically? If it were to be satisfied, capital investment must continue in areas partially developed and begin in other areas which remained quite undeveloped. But where were the market prospects which would attract the private investor? Responsibility, it would seem, must fall increasingly upon those governments which had taken upon themselves a 'sacred trust' for the welfare of African peoples. Would they have the will and the economic strength to shoulder the responsibility? Possibly they would But if it should prove otherwise, would they have the wisdom and the skill to induce others to share it with them? These new questions will be in our minds as we begin our study of British economic policy in Africa: other questions have been raised in the preface to this volume.

APPENDIX I

THE COMMUNIST DOCTRINES OF EMPIRE

THE communist literature upon imperialism is enormous So too is the literature of criticism and counter-comment upon it I shall therefore be forced to confine myself to stating, as clearly as is possible within a brief space, the nature of the doctrines concerned and some of the questions to be solved, if we are to reach a settled opinion upon them.

Certainly no judgement on such a topic can be final The communist interpretation of empire is in essence a view of political human nature and of the motives which govern it It follows that such a theory can neither be wholly proved nor wholly disproved by resort to historical or statistical arguments, or, shortly, by the appeal to experience When it is the interpretation of experience itself which is the problem, it is clear, an accurate determination of the facts of experience can form only a part of the process by which the truth is reached To become intelligible, these facts must be related according to some principles of economic or political theory, and into our choice of such principles there will enter assumptions about human nature which depend on the experience, conscious and unconscious, of each one of us A true understanding of history must consequently always be far more limited and subjective than either the political or economic theorist, or the historian, usually cares to believe.

Yet the matters concerned are so important that discussion upon them cannot be wasted, even if we believe that the correctness of any opinion that can be reached must be to no small extent dependent on a sort of general balance of considerations, which every one is free to strike for himself or herself and to re-strike from time to time.

I

Present-day communist views about the economic origins of empire may be said to be a systematization of certain general ideas which were already alive in the minds of educated men a century or more ago. It is their association with communist politics and with the materialist philosophy of history which has cut them off so to speak from their origins and given them their modern eminence.[1]

[1] H. Grossmann, *Das Akkumulations- und Zusammenbruchsgesetz des kapitalistischen Systems* (Leipzig, 1929), examines the relations between communist and classical economists from the communist point of view My treatment owes a good deal to his diligence and insight, although I have read the literature for myself and happen to disagree with his main beliefs. Richard Pares, 'The Economic Factors in the History of the Empire' (*Economic History Review*, May 1937), was helpful. There are some penetrating discussions of the communist theories in German, for

In the economic discussions of the early nineteenth century there was much debate among the writers of the day, first as to possible future checks to the undoubted material progress which western society was already making, and second, as to the true causes of the profound poverty in which the rest of the world continued to live. These were questions whose importance and difficulty were about equal to one another

Adam Smith in the eighteenth century had pointed out with force that the prime cause of economic progress was division of labour, and that the most efficient cause of the improvement of the division of labour was the employment of capital. Therefore, the foundation of present and future improvement seemed to lie in the constant accumulation of capital

These abstract propositions appeared to be established upon a reference to the living world, where the societies employing the most capital were also the wealthiest and those using the least were the poorest. They confirmed the faith of the business classes in the importance of capital and the virtue of thrift. Yet they had been criticized, very early in the century, and that from the standpoint of plain common sense

If this teaching were true, then capital created its own uses Yet did not the accumulation and whole working of the means of production depend upon consumption and was it not perfectly clear that a fall in society's consumption, if sufficiently acute, would slow up or stop altogether the accumulation of capital, by rendering it unprofitable?

Such arguments had been raised by Malthus, against his friend Ricardo, with a vigour equal to Adam Smith's own, in the year 1820 [1] He, indeed, would have made it the main business of political economy to determine the point where, 'taking into consideration both the power to produce and the will to consume, the encouragement to the increase of wealth is the greatest'.

This was a fruitful beginning in the analysis of the complex forces which determine the volume of output, income, and employment throughout society as a whole. But it was no more than a suggestion, and the attention of Malthus's contemporaries soon fastened upon other and, on the face of them, more pressing and practical problems

Taking the accumulation of capital for granted, as a 'natural process',

example, Arthur Salz, *Das Wesen des Imperialismus* (Leipzig and Berlin, 1931), and, better still, Walter Sulzbach, *Nationales Gemeinschaftsgefuhl und wirtschaftliches Interesse* (Leipzig, 1929). I have not attempted to cover again ground which they have often tilled thoroughly. The English literature is generally inferior to the German, although Maurice Dobb's *Political Economy and Capitalism* (1937) includes a clear little essay written from the Marxian point of view. Those who relish bibliography will find a valuable list in W L Langer, *The Diplomacy of Imperialism* (New York, 1935), vol. i, ch. iii.

[1] T. R Malthus, *The Principles of Political Economy* (London, 1836, 2nd edition), reprinted at Tokio, 1936, see especially the Introduction and Book Two The whole controversy between Malthus and Ricardo has been reopened in modern times by Mr. J M. Keynes, *The General Theory of Employment, Interest and Money* (1936), and *Essays in Biography* (1933).

other writers put such questions as these. As capital increases and the competition for profitable investment grows, must not the rate of profit fall, over the long period of time? If the rate of profit falls, must not the accumulation of capital cease and economic progress come to a stop?

Although it was conceived differently by different writers, the 'natural tendency of profits to fall' hung like a nightmare over the speculations of the classical school of economists, from whom, in those days, the majority of educated men took their opinions on such subjects.

Ricardo had predicted in 1815 that, as the world's population began to press upon its food-supply, profits would be ground between a rising cost of living and rising rents.[1] Mill, the leader of the next generation in economic thought, held that the opportunities for investment must be limited by a country's physical resources and by the demand of other countries for its exports. He believed that a limit existed which must sooner or later bring about an over-supply of capital and fall of profits, unless broken by new inventions, or investment in countries or colonies abroad.

Here the varied and uncomfortable speculations of the economists felt the influence of one of the great practical forces of that age England after Waterloo, from having been a borrower, was becoming a lender It is, therefore, perhaps hardly surprising that it became fashionable to defend foreign investment, not merely as profitable business or a stimulus to international trade, but also on the highly abstract ground that it acted as a brake upon the 'natural tendency of profits to fall' Mill had laid it down in 1848 that 'up to a certain point, the more capital we send away, the more we shall possess', owing to the beneficial effects of investment abroad upon accumulation at home [2] Here he was only following a contemporary writer, the colonialist, Gibbon Wakefield. For Wakefield had boldly argued that the economic difficulties of England in the thirties and forties arose out of over-population and over-supply of capital.[3] He proposed to remedy both evils by sending men and capital to the colonies.

It was therefore the actual belief of many intelligent men, following the classical school of political economy, that the natural workings of the economic system led to over-accumulation of capital and that foreign investment and colonization were the natural and beneficial consequences. This train of thought is most clearly and interestingly expressed in the lectures delivered at Oxford between 1839 and 1841 by Herman Merivale, who is the better witness because he was an intelligent and well-informed

[1] Ricardo's essay on *The Influence of a Low Price of Corn on the Profits of Stock* (2nd edition, 1815, in Gonner, *Ricardo's Economic Essays*, 225–53) indicates the drift of his thought Mill's influence dates from *The Principles of Political Economy* (1848), Bk. IV, ch iv, sec. 2

[2] Mill, *Principles*, Bk. IV, ch iv, sec 8.

[3] Wakefield's opinions were set out in *England and America* (2 vols. 1833) and *The Art of Colonization* (1849). He is quoted by name by Mill.

man, a staunch liberal, and from 1859 for many years permanent under-secretary for India.[1]

Accepting the natural tendency of capital to accumulate and of profits to fall, Merivale admitted a 'most important practical consequence', that 'the abstraction of capital from productive industry may, under certain circumstances and for a certain time, be the most effectual mode of preventing a reduction of profit and stimulating further accumulation'. He therefore ranged himself with equal caution and clearness with the 'young and sanguine sect of colonial reformers' who contemplated 'a reconstruction and great extension of the British dominion beyond the seas, on principles of internal self-government and commercial freedom' The old colonial system he would not defend; yet colonies, he urged, are of definite advantage to the mother country, since they increase international trade, all nations gain, but the mother country not the least Great Britain ought therefore to be among the first to shoulder the risks of trade and settlement in new lands.

In this way the new colonial school of the early nineteenth century actually accepted—the economic arguments they employed were not of course necessarily sound—the later communist thesis that empires are a form of investment, serving to keep up the rate of profit on capital at home

At the same time, they accepted it, as will later be seen, on terms that ill agree with the rest of the communist argument. The empire they conceived could not by any stretch of imagination be termed a result of monopoly-capitalism, for it was to be the Free-Trade empire of a Free-Trade and *laissez-faire* Great Britain

Nevertheless, the correspondence of ideas with the later Marxian schools clearly indicates the origin of the economic conceptions which to-day form the staple of the communist analysis of empire

In Mill's own time (he died in 1873) the theory of accumulation was already sending out new variants Mill had believed that the fall of profits and slowing-down of accumulation would be the necessary phase before society entered an age of stationariness, where the pursuit of wealth would be at a discount compared with other and more valuable forms of human activity. Other men had different views of what was best for society and were as ready as Mill to use the theory of accumulation to show that what they desired was necessary and indeed an inevitable law of the society in which they lived.

II

Like the classical economists with whom his resemblances are close, Karl Marx, the first volume of whose *Capital* appeared in 1867, the last

[1] Merivale was Drummond Professor of Political Economy in Oxford and his lectures made an impression as an able and discriminating criticism of the Wakefield schemes, they have been recently published (1928) under the title, *Lectures on Colonization and Colonies delivered before the University of Oxford 1839–1841.*

in 1894, sought a scientific explanation of economic phenomena Like them, he found the causes of things in the motives at work among men and the explanation of future things in the predictable consequences of present motives [1]

Surplus value, wrung out of the worker to whom no more than a subsistence-wage is paid, formed in Marx's view the obvious incentive to capitalist production and its constant driving-force. To replace existing capital as it wears out and to increase its quantity so as to augment the mass of surplus value is the prime need of the capitalist. The accumulation of capital therefore becomes the 'law of motion of capitalist society'.

Accumulation is hastened in modern societies by division of labour and especially through the use of plant and machinery. Fixed capital, therefore, comes to play a more and more important part in production. Here Marx's argument abuts on the later contentions of Lenin For he was confident that the competition of large and expensive plant must sooner or later give rise to monopoly, as a self-protective device to keep the rate of profit up The device was a palliative and would fail to maintain the profit on capital, capitalists would be forced to introduce still more machinery, displacing more workers, and finally would be compelled to attack the living-standards of the workers themselves The natural tendency of profits to fall' would end in social revolution. How different from Mill's stationary state!

Upon this general argument, Lenin's explanation of empire was built He wrote in 1916, in the shadow of the crisis of western civilization created by the war of 1914

It had been Marx's view that the fall of profits might from time to time be checked by temporary forces, by more rigorous exploitation of labour, lowering of wages, or increase of foreign trade Lenin now added, by the forcible seizure of foreign markets too There was little in his argument that was essentially new, except the assertion that imperialism must prove the last stage of capitalism, before the law of capitalist collapse became fully operative

An economic explanation of modern English imperialism had already been given by Mr J A. Hobson, in a book which arose out of the South African war [2] He had refused to argue that all imperialism, even modern, is economic at bottom. Admitting the three P's—Pride, Prestige, and Pugnacity—he contended that the chief influence was the search for markets, arising from the inability of the home-market under capitalism to absorb either the goods produced or the accumulated capital The gains of empire were not illusory, although they went to the few, to the

[1] The volume of *Capital* most relevant to the argument which follows is the third, translated by Untermann (Chicago, 1909), especially part iii, on 'The Law of the Falling Tendency of the Rate of Profit', which gives Marx's view very clearly For Marx's general theory, E Roll, *A History of Economic Thought* (1938), ch vi.

[2] J. A. Hobson, *Imperialism* (1902), republished with an interesting preface in 1938.

planter and the mine-manager and the colonial official, above all, to the speculator and investor. This was an able and interesting book and it was used with approval by Lenin. The other half of Lenin's argument was largely supplied by the work of Rudolf Hilferding, a young Austrian physician, who was always a little rueful over the conclusions which Lenin later drew from his work [1]

It was the growth of monopoly which interested Hilferding and, especially, credit-monopolies He had little difficulty in showing how greatly monopoly had grown in continental industry and banking since Marx's time, and how the banks had extended their power over industry. This growth of what he called finance-capital he linked up with other forms of current monopoly—with the trust and the cartel, the tariff and the protected colonial empire

These were the ideas which were fused by Lenin, writing in Zurich in 1916, into what is to-day the official doctrine of communism upon empires.[2]

So far as the argument can be summarized, it might perhaps be stated thus. The economic essence of modern imperialism is monopoly-capitalism. Monopoly arose out of free competition, in accordance with the Marxian laws Production has become concentrated in cartels, syndicates, and trusts of all kinds. At the same time, equally important monopolies have arisen in credit; and the extension of the influence of the banks over industry has tended to form great national financial monopolies. Concentration of control, however, has only postponed the fall of profits, and consequently opportunities for investment abroad have become vitally important Imperialism therefore is nothing but monopoly-capitalism. It is, however, the last stage of capitalism Competing economic empires bring war, war brings revolution, and revolution will finally overthrow capital and imperialism together.

Lenin wrote during the world war; so too did Bukharin, who set forth similar ideas [3] Both men express the hopes and convictions of practical revolutionaries, who were certain that the war was about to bring the movement they represented to victory.

Lenin's book was a practical politician's pamphlet, not a scientific treatise. The author's success in the political sphere has given it such a reputation, however, that it stands to other communist theories concerning empire as orthodoxy to heterodoxy in the early ages of the Christian Church Nevertheless, a consideration of Lenin's theory is bound to suggest several limitations springing partly from the materials at his disposal, partly from the nature of the theory itself.

The history of the hundred years before 1914—the greatest lending age in the world's history—certainly has shown over and over again that loans

[1] Hilferding, *Das Finanz-Kapital* (Wien, 1910), I have used an edition of 1923.

[2] V. I. Lenin, *Imperialism the Highest Stage of Capitalism* (2nd English edition, London, 1934)

[3] N. Bukharin, *Imperialism and World Economy* (American translation. The original was written, according to the preface, in 1915).

may be fatal to borrowing people and States. The British occupation of Egypt and the French conquest of Morocco are familiar instances of financial assistance first entangling and finally destroying weak governments. Just as in the Indian village the money-lender, that indispensable member of eastern society, profits from the cultivator both when he is prosperous and when he starves, and is well hated for doing so (not only as a usurer but often also as a man of alien faith and race) so in the nineteenth century world the money-lender of western blood conducts his operations often in a tangle of intrigue and conflicting interests which has materially contributed to inflame international relations. Many of his transactions were innocuous, but the influence of investors did from time to time deflect the policy of states, and the chanceries have often converted international finance into a sinister interest.

The most distinct, not to say glaring, example of the impact of finance upon politics in British experience is to be found in the history of the South African War, when leaders in the investment of British capital in South Africa exerted a real personal influence over both South Africa and British politics. There is another instance from those times which deserves to be better known, or known in its proportions, for it has been often quoted by those unfamiliar with all the circumstances.

About the year 1894 when affairs in the Transvaal were drifting to a crisis, the London *Saturday Review* changed hands, being bought by Alfred Ochs, Beit, and others intimate with Cecil Rhodes. At a slightly later date, by a further arrangement of shares and a change in the position of Frank Harris, the editor, the paper was brought fully into line with the politics of that group. Fearing German intervention in South Africa, its foreign policy was moulded accordingly. A discourse on 'the biological conception of foreign policy', of 1st February 1896, arrived at the remarkably scientific conclusion, *Germania est delenda*, and on 11th September 1897 the *Review* published an article in the same strain which became famous. It is true that at the time of the Fashoda crisis the *Review* was advocating German friendship and the crushing of French pretensions in Africa, but its earlier articles against Germany, which represented nothing more than the views of a small group with financial and political interests in South Africa, are still quoted in Germany to-day as a serious description of British foreign policy before 1914.[1]

There is, therefore, forceful proof in the history of the nineteenth century for Lenin's thesis. Investment helped to make the empires, and investors often cultivated political interests. It will be remembered, however, that Lenin's book professed to be much more than the exhibition of empiric facts. It set forth a body of economic and social theory of extremely comprehensive character and described capitalist accumulation and collapse as general laws of society.

[1] Dr Angelika Banze, *Die Deutsch-englische Wirtschaftsrivalitat* (Berlin, 1935), pp. 42–9, has gone into this discreditable episode in a sober and unexaggerating spirit.

Lenin's book was written largely out of continental experience Great Britain, however, as the largest foreign investor known, is the best test of his theory. He takes no account of the very large investments of the first half of the nineteenth century in an age when the economic organization of England was intensely competitive and colonial expansion much out of fashion with its people. Capital flowed abroad in vastest volume when active development was proceeding at home and slowed down with the onset of internal depressions, so that 'saturation' was clearly a highly relative thing, nothing more than a relation between two expectations—of future yield on investments at home and abroad—strongly influenced by the slowness with which a once peasant people accustomed itself to the idea of a rising standard of life

Neither does his thesis ride more firmly to the facts of the great age of colonial expansion, in the last quarter of the century The houses handling foreign investment remained independent of the rest of the London money-market and the money-market remained divorced from manufacturing industry, which financed itself in the provinces, down to and after the war of 1914–18 During the same period vast masses of our investment continued to go, as before, to countries outside the British empire and largely beyond the control of British policy [1]

The issues are certainly more complicated than Marxian writers have been willing to suppose. Experience shows that the wealthy countries of the west have lent money throughout the world It does not follow that such capital would have continued accumulating in those countries, if it had never been lent. Foreign lendings were not born necessarily of monopoly or of accumulation which would in any case have gone on. Great Britain in the last century lent enormously, long before her industry or her credit-system showed the least tendency in the world towards monopoly, but had there been no openings abroad for her capital, much of that capital would never have been saved at all She had so much to lend, because she lent indefatigably, only the economic developments abroad made possible by her loans brought about the further increases in her wealth out of which new loans were raised. And she lent chiefly when she was herself making full calls upon her capital for home-development, not—as some may suppose—when development at home drooped unprofitably These well-known things are not perhaps inconsistent with the communist case, if it is contended simply that investment abroad was necessary for such an accumulation of capital as Victorian England had come to regard as 'natural', and that such investments often brought political consequences; but they are seriously inconsistent with that case as it is usually stated, among others by Lenin.

[1] On the course of British investment, now pretty thoroughly known, L. H Jenks, *Migration of British Capital to 1875* (New York, 1927); H. Feis, *Europe the World's Banker 1870–1914* (New Haven, 1930), and C K Hobson, *Export of Capital* (1914). The Report of the Committee on Finance and Industry, 1931 (Cmd 3897), and Feis make clear the different organization of the London and continental money-markets.

III

There was already a communist theory of empire in the field when Lenin wrote This was Rosa Luxemburg's, published in 1912. It, too, was a variant of the law of accumulation, based upon Karl Marx [1]

How is capitalist accumulation practically possible? This was the question that Rosa Luxemburg posed She sought the answer to it throughout economic literature Her own solution was based upon classical economics and Marx. It also represented an attempt to correct errors in Marx's reasonings, as she conceived, and this earned her the stern disapprobation of more orthodox Marxians, among them Lenin

Rosa Luxemburg discovered the secret of accumulation and of empire in the demand of non-capitalist peoples for goods capitalistically produced She satisfied herself that the accumulation of capital was impossible, if the goods turned out by the capitalist machine could find a market only among the capitalists and their workers The money turned into fresh investments of capital by the capitalists could only be realized by the sale of goods to those who stood outside of capitalist organization—to the peasant populations of Europe and, above all, to the colonial worlds outside Europe Empire was consequently essential to the continuance of capitalism, and again, it was a curse to the capitalist countries that possessed it The area of the globe is limited Empires consequently mean imperialist wars and war threatens the very foundations of capitalism

The great similarity between the ideas of Lenin and Rosa Luxemburg arises out of their common preoccupation with the problem of the accumulation of capital The division is a difference of emphasis, since no hard and fast line can be drawn between export of capital and export of consumable goods Lenin stresses the element of monopoly and the search for additional profit by investing capitalists, Luxemburg, rather, the competitiveness of capitalists and the necessity of markets Both have had a wide influence and have opened important questions of economic theory and history.

Memory and Professor Hancock's text will suggest numerous examples of the influence which traders in primitive countries have exerted in modern times upon the overseas expansion of the states of Europe In this connexion it is worth recollecting that the trade incentive to colonial empire remained operative throughout the period described by Lenin as the period of financial capitalism.

To take a single instance—few imperial moves of modern times have been more clearly instigated by the trader than Bismarck's annexation in 1885 of the Cameroons—a part of the world where there was no white

[1] Rosa Luxemburg, *Die Akkumulation des Kapitals* (Leipzig, 1921, preface dated 1912). One volume has been translated into French, under the title, *L'Accumulation du Capital*, tome I (Paris, 1935) Fritz Sternberg, *Der Imperialismus* (Berlin, 1926), appears to owe a good deal to Rosa Luxemburg.

capital whatever beyond the floating capital of traders of various nationalities.

> Ich bin ein Bub von Kamerun,
> Der deutschen Kolonie;
> Furst Bismarck hatte viel zu tun,
> Bis er erworben sie!

He might not have carried through the task without the assistance of the two Hamburg firms, Woermann and Jantzen & Thormahlen. Bismarck appears to have regarded the first German colony as a natural extension of the German tariff of 1879—as a *Schutzgebiet* for German trade abroad It was the Hamburg traders who in 1883 asked for a colony in that part of West Africa to take Germany's surplus goods and supply her with raw materials. Nachtigal, the imperial German Commissioner who made the annexation, carried, as a rider to his official and general instructions, the specific orders of the two largest German traders on the coast, to claim for Germany whatever land those firms had already acquired or intended by treaty to acquire in certain named places. When the Cameroons had been annexed Bismarck proposed to hand over its government to the traders, they modestly declined, contenting themselves with a couple of trading monopolies, while the Chancellor was forced to set up what he hated—an official administration Despite the avowed economic aims of the German government, it is fair to add that they did not exclude justice and conscience—better deeds might not have followed finer words [1]

Similar instances might be drawn from French and British history of about the same period, but without pursuing the matter further, one must grant the truth of empirical observation behind Rosa Luxemburg's work It will be recollected, however, that that book claimed the truth of a comprehensive theoretical system, not merely that of historical observation. Nevertheless, the economic theory employed is probably far more limited in its scope than the author supposed

The relation between accumulation and lack of purchasing-power, which we all are tempted to treat as simple, is pretty certainly complex. Experience shows that shortages of purchasing-power do from time to time occur throughout the highly industrialized communities of the western world, although the causes are still unsettled, notwithstanding a century of discussion of the trade-cycle. In any case, it appears that a persistently low level of consumption in society is far more likely to slow up or check altogether the accumulation of capital, than to bring about an over-supply of it. An over-supply of capital does appear from time to time in particular industries, but this is a different matter, and merely represents the error of investors.

All of this, once more, is possibly not inconsistent with the communist explanation of imperial expansion, yet it fits ill with the fundamental

[1] H R. Rudin, *The Germans in the Cameroons, 1884–1914* (London, 1938).

causes of expansion as they are often conceived in simple terms of under-consumption and over-saving.

IV

The theories outlined above deal at length with problems of international relations, but the original question which they set themselves to answer was very different—in what way and at what point will capitalism destroy itself, so as to show itself subject to the Marxian conception of social development?

It was for this purpose that there was evolved the law of capitalist accumulation and the variations of it created by Rosa Luxemburg and Lenin.

In these discussions the heirs of Marxian thought showed themselves fully aware of difficulties which orthodox political economy skated over or altogether avoided There is much that is penetrating and true in their views of history, in their handling of the trade-cycle and other major questions of economic theory.

That the 'laws of motion of capitalist society', however, have been conclusively established and verified either by Marxian or by orthodox economics cannot be admitted, notwithstanding a century of debate. The existence of at least two communist theories proves that the Marxians are not agreed and orthodox economics is not more united Many important things have been established and differences no doubt are less than they seem, but the existence of a large body of instructive thought is very different from the one great logical and inductive law which Marxian thought set out to find, which was to predict the course of western civilization

The original quest of such a law was perhaps a mistake The development of economics first among the social sciences and its early and natural entanglement with political positions of opposing kinds, has called out everywhere a spirit of dogmatism over its findings The natural presumption is that the explanation of society requires many social sciences, not one, even if that one numbered among its founders men as able as Adam Smith and Karl Marx.

Over a century ago a new social law was described, which was comparable in its domination over educated men with the influence of the 'law of capitalist accumulation' to-day. The Malthusian law was thoroughly scientific in its origins, it was logically argued, laboriously verified, publicly detested, and ardently believed. For two generations the law governed English social theory and even English politics, so far as an idea can rule men. Yet no one to-day imagines that Malthus, fine scientist as he was, so fathomed society that its problems can be understood and controlled by a simple recital of his formulæ.

The theories which we have been discussing already show some of their limits and may be supposed to be in process of being reduced

from the level of dogma to the more tolerable standing of fertile thought

Cast wholly in economic terms they omit the political elements which are essential to war and colonial empire It is reasonable to believe that man is a political as well as an economic animal. The war of 1914–18 was perhaps, as Croce says, a war of historical materialism, but this materialism was political as well as economic, State and business-community together schooled the world to put wealth and power above peace The European state system, as a quasi-independent and self-perpetuating force, is excluded from the Marxian picture. Yet the State shook itself free of law and authority a century and a half before public thinkers were prepared to give the same sanction to economic competition, and one of the earliest uses of its modern freedom was for overseas dominion [1]

Politics and economics are not yet wholly annexed to the kingdom of rational behaviour, yet for the utilitarian psychology which unites Marxian with the classical political economy, the broad instinctive life of man remains like a river underground, not so much unheard as unexplored In the daily life of societies it constantly bursts to the surface and leaves little in history of the simple patterns of our theories Where is the ground for supposing that war and domination are always the consequence of economic or political calculation?

The domination of one society over another is a social and not an economic phenomenon, although it is often in large part the result of superior economic organization Imperialism is the result of the exploitation of advantages of every kind, in a world where races and peoples seem no more equal in resources or civilization or ability than are individuals

In some of the remote parts of China adjoining Thibet the thoroughly medieval society of Thibet exercises a kind of imperialism over the mountain valleys, where it steadily expands as against the primitive mountain tribes It is carried forward by wealth, for it is usurer to the poor peasants, by population, for it settles, by the victories of its religion and clearer intellectual life over the confused superstitions and ignorance of the mountaineers Exactly similar forces have given western society control of modern Africa But if this is so, then, however great the influence of the western trader and investor in the modern world, imperialism is likely to continue long after capitalism has been forgotten, for differences of national income and resources, culture, and social organization will survive the private capitalism of the west. Societies unequal in strength in many ways will still meet and out of their conflicts of interest imperialism of new kinds will arise.

Yet some old temptations to domination can perhaps be removed The most important source of strength through which one society can come to dominate another lies in political organization and leadership. Hardly

[1] Much that the Marxians omit is to be found in R G. Hawtrey's subtle and realistic *Economic Aspects of Sovereignty* (1930), still more, in Friedrich Meinecke's *Die Idee der Staatsrason* (Berlin, 1924, 3rd edition, 1929)

less potent, however, is developed wealth. Here the communists have at least assisted to raise by implication problems of perennial importance in a modern way. How far the grave economic inequalities of the world are natural; how far they may be due to an inadequate private enterprise, or an ill-founded reluctance to employ organization and authority to overcome them, are questions that cut deep into present-day colonial and commercial policies.

W. H. B. Court.

APPENDIX II

THE totals below show value of trade (in £ sterling) between the country concerned and all other countries, all foreign countries, all other Empire countries, and with the United Kingdom respectively. The percentage columns show the percentage of total imports or exports originating in or consigned to foreign countries, other Empire countries, and the United Kingdom respectively.

AUSTRALIA: DIRECTION OF TRADE

IMPORTS

Years ended 30 June	*Total*	*Foreign countries*		*British Empire*		*United Kingdom*	
	£000	£000	*Per cent*	£000	*Per cent*	£000	*Per cent.*
1913	79,750*	29,447*	37·0	50,303*	63·0	41,328*	51·9
1921	163,802*	68,515*	41·8	95,286*	58·2	76,850*	46·8
1925	146,595	60,910	41·6	85,685	58·4	69,041	47·2
1927	164,073	74,836	45·6	89,237	54·4	67,786	41·4
1929	143,280	67,217	46·8	76,063	53·2	57,012	39·8
1930	130,756†	59,440	45·5	69,780	53·4	54,241	41·5
1931	60,561†	27,026	44·7	31,740	52·3	23,276	38·4
1932	44,042†	18,669	42·3	24,160	54·8	17,405	39·6
1933	56,843†	23,029	40·4	32,289	56·8	23,524	41·3
1934	59,435†	23,386	39·3	34,542	58·0	25,140	42·3
1935	72,421†	28,972	40·1	41,591	57·4	30,786	42·4
1936	83,519†	34,551	41·4	46,906	56·2	33,833	40·6
1937	90,592†	35,405	39·0	53,082	58·5	38,559	42·5

EXPORTS

Years ended 30 June	*Total*	*Foreign countries*		*British Empire*		*United Kingdom*	
	£000	£000	*Per cent*	£000	*Per cent*	£000	*Per cent.*
1913	75,138*	33,803*	44·9	41,335*	55·1	33,971*	45·2
1921	126,431*	37,200*	29·4	89,231*	70·6	66,508*	52·6
1925	156,877	75,169	47·9	81,708	52·1	68,541	43·7
1927	129,848	69,674	53·7	60,174	46·3	47,945	36·9
1929	137,866	67,812	49·2	70,054	50·8	52,516	38·1
1930	94,868	41,309	43·7	53,559	56·3	42,818	45·2
1931	74,593	33,941	45·7	40,652	54·3	33,511	44·8
1932	73,960	30,508	41·2	43,452	58·8	37,200	50·3
1933	76,740	33,341	43·5	43,399	56·5	36,565	47·7
1934	89,004	39,741	44·6	49,263	55·4	42,429	47·7
1935	80,813	30,342	37·5	50,471	62·5	42,637	52·7
1936	96,156	39,192	40·8	56,964	59·2	47,707	49·5
1937	115,797	45,661	39·4	70,136	60·6	57,847	67·0

(*Statistical Abstract for the British Empire*, 1926, 1935, 1937, 1938.)

* Including bullion and coin.

† Totals include outside packages. These are not available by countries.

CANADA. DIRECTION OF TRADE

IMPORTS

Years beginning 1 April	Total	Foreign countries		British Empire		United Kingdom	
	£000	£000	Per cent	£000	Per cent	£000	Per cent.
1913	130,259*	98,495*	75 7	31,764*	24 3	27,148*	20 8
1921	154,700*	124,048*	80 2	30,652*	19 8	24,079*	15 6
1925	190,324	147,419	77 5	42,905	22 5	33,642	17 7
1927	227,684	176,406	77 5	51,278	22 5	38,307	16 9
1929	256,318	204,404	79 7	51,914	20 3	38,868	15 1
1930	186,176	144,079	77 4	42,097	22 6	30,714	16 5
1931	118,765	88,410	74 5	30,355	25 5	21,840	18 4
1932	83,398	58,679	70 4	24,719	29 6	17,749	21 3
1933	88,975	60,140	67 6	28,835	32 4	21,581	24 3
1934	106,645	74,656	70 0	31,989	30 0	22,844	21 4
1935	114,614	78,373	68 4	36,241	31 6	24,038	21 0
1936	137,674	97,087	70 5	40,587	29 5	26 479	19 3
1937	163,999	116,122	70 8	47,877	29 2	29,754	18 1

EXPORTS

Years beginning 1 April	Total	Foreign countries		British Empire		United Kingdom	
1913	88,716*	39,661*	44 7	49,055*	55 3	44,247*	49 8
1921	155,878*	84,790*	54 4	71,088*	45 6	61,535*	39 5
1925	268,287	145,702	54 3	122,585	45 7	104,262	38 8
1927	250,559	148,663	59 3	101,896	40 7	84,385	33 7
1929	228,608	151,213	66 2	77,395	33 8	57,874	25 2
1930	163,132	103,469	63 5	59,663	36 5	45,050	27 8
1931	128,683	79,796	61 9	48,887	38 1	38,860	30 2
1932	118,122	62,638	53 0	55,484	47 0	46,297	39 3
1933	118,678	61,544	52 0	57,134	48 0	46,947	39 6
1934	132,698	63,951	48 2	68,747	51 8	55.302	41 7
1935	152,127	72,316	47 4	79,811	52 6	64,127	42 1
1936	197,591	98,164	49 6	99,427	50 4	81,764	41 5
1937	196,512	93,136	47 4	103,376	52 6	81,692	41 6

(*Statistical Abstract for the British Empire*, 1926, 1935, 1937, 1938)

* Including bullion and coin

BRITISH INDIA: DIRECTION OF TRADE*

IMPORTS

Years beginning 1 April	Total £000	Foreign countries £000	Foreign countries Per cent.	British Empire £000	British Empire Per cent	United Kingdom £000	United Kingdom Per cent.
1913†	156,498	43,539	28·0	112,960	72·0	102,538‡	65·5
1921†	209,264	63,906	30·5	145,358	69·5	119,098‡	52·2
1925	169,633	69,903	41·2	99,730	58·8	86,490‡	50·9
1927	187,377	85,100	45·4	102,277	54·6	89,407‡	47·7
1929	180,598	87,252	48·3	93,346	51·7	77,327‡	42·8
1930	123,595	66,581	53·8	57,014	46·2	45,965‡	37·3
1931	94,779	52,279	55·1	42,500	44·9	33,611‡	35·5
1932	99,438	54,901	55·2	44,537	44·8	36,598‡	36·8
1933	86,518	43,239	49·9	43,279	50·1	35,690	41·3
1934	99,215	50,203	50·6	49,012	49·4	40,294	40·6
1935	100,817	51,664	51·3	49,131	48·7	39,140	38·9
1936	93,930	47,688	50·7	46,244	49·3	36,049	38·4
1937§	130,341	58,920	45·2	71,421	54·8	38,972	29·9

EXPORTS

Years beginning 1 April	Total £000	Foreign countries £000	Foreign countries Per cent.	British Empire £000	British Empire Per cent	United Kingdom £000	United Kingdom Per cent.
1913	162,849	101,509	62·3	61,341	37·7	38,247‡	23·7
1921	155,782	93,454	59·9	62,328	40·1	30,744‡	19·7
1925	281,132	185,891	66·1	95,241	33·9	58,292‡	20·7
1927	239,365	144,976	60·6	94,389	39·4	58,406‡	24·4
1929	233,104	150,457	44·7	82,647	35·4	49,917‡	21·4
1930	165,369	100,777	61·0	64,592	39·0	38,830‡	23·5
1931	116,916	65,810	56·2	51,106	43·8	32,157‡	27·5
1932	99,204	54,456	54·8	44,748	45·2	27,619‡	27·8
1933	110,438	59,326	53·7	51,112	46·3	35,407	32·1
1934	113,752	62,099	54·6	51,653	45·4	35,943	31·6
1935	120,393	64,924	53·9	55,469	46·1	37,857	31·3
1936	147,094	79,998	54·4	67,096	45·6	47,619	32·4
1937§	135,698	66,313	48·9	69,383	51·1	45,166	33·3

(*Statistical Abstract for the British Empire*, 1926, 1935, 1937, 1938.)

* Trade by sea, excluding trade on Government Account except in 1913 and 1921.
† Including bullion and coin.
‡ Including Irish Free State.
§ Including trade with Burma, previously classed as coastwise.

EIRE: DIRECTION OF TRADE

IMPORTS

	Total	Foreign countries		British Empire		United Kingdom	
	£000	£000	Per cent.	£000	Per cent	£000	Per cent
1925	62,950	8,978	14·3	53,972	85·7	51,034	81·2
1927	60,824	12,160	20·1	48,664	79·9	47,057	77·4
1929	61,316	12,230	19·9	49,086	80·1	47,894	78·1
1930	56,776	10,349	18·3	46,427	81·7	45,432	80·0
1931	50,461	8,235	16·3	42,226	83·7	40,772	80·8
1932	42,574	7,754	18·2	34,820	81·8	32,629	76·6
1933	35,789	8,064	22·7	27,725	72·3	25,032	69·9
1934	39,122	10,695	27·5	28,427	72·5	26,090	66·7
1935	37,348	8,224	22·2	29,124	77·8	27,046	72·4
1936	39,913	13,144	32·9	26,769	67·1	21,254	53·3
1937	44,108	15,446	35·0	28,662	65·0	22,072	50·2

EXPORTS

	Total	Foreign countries		British Empire		United Kingdom	
	£000	£000	Per cent.	£000	Per cent	£000	Per cent
1925	43,374	921	2·1	42,453	97·9	42,302	97·5
1927	43,568	1,473	3·4	42,095	96·6	41,702	95·3
1929	46,225	2,749	6·0	43,476	94·0	42,886	92·8
1930	43,768	2,924	6·7	40,844	93·3	40,312	92·1
1931	35,546	1,117	3·1	34,429	96·9	34,214	96·3
1932	25,173	745	3·1	24,428	96·9	24,199	96·1
1933	18,439	907	4·9	17,532	95·1	17,310	93·9
1934	17,574	910	5·3	16,664	94·7	16,421	93·4
1935	19,615	1,341	6·9	18,274	93·1	17,991	91·8
1936	21,969	1,591	7·2	20,378	92·8	20,104	91·5
1937	22,234	1,775	8·0	20,459	92·0	20,150	90·6

(*Statistical Abstracts for the British Empire*, 1926, 1935, 1937, 1938.)

NEW ZEALAND: DIRECTION OF TRADE

IMPORTS

	Total	*Foreign countries*		*British Empire*		*United Kingdom*	
	£000	£000	*Per cent*	£000	*Per cent*	£000	*Per cent*
1913	22,288*	3,924*	17 6	18,364*	82 4	13,312*	59 8
1921	42,942*	11,793*	27 5	31,150*	72 5	20,833*	48 4
1925	52,422	14,193	27 1	38,229	72 9	25,542	48 8
1927	44,780	14,064	31 4	30,716	68 6	21,463	47 9
1929	48,727	15,700	32 2	33,027	67 8	22,495	46 2
1930	42,660	13,433	31 4	29,227	68 6	20,220	47 3
1931	24,755	7,380	29 8	17,375	70 2	12,140	48 9
1932	22,988	6,486	29 2	16,502	71 8	11,440	49 8
1933	20,463	5,428	26 5	15,035	73 5	10,500	51 3
1934	25,069	6,559	26 2	18,510	73 8	12,631	50 5
1935	29,168	7,802	26 7	21,366	73 3	14,684	50 4
1936	35,448	9,587	27 0	25,861	73 0	17,552	49 5
1937	45,108	11,896		33,212	..	22,383	

EXPORTS

1913	22,578*	1,622*	7 2	20,956*	92 8	18,089*	80 2
1921	43,615*	2,795*	6 4	40,821*	93 6	38,471*	88 3
1925	53,770	7,540	14 0	46,230	86 0	43,682	81 4
1927	46,778	5,508	11 8	41,270	88 2	36,491	78 2
1929	53,424	7,812	14 6	45,612	85 6	40,086	75 1
1930	43,454	3,848	8 9	39,606	91 1	35,660	82 2
1931	30,653	2,093	6 8	28,560	93 2	27,489	89 8
1932	30,725	1,863	6 0	28,862	94 0	27,707	90 2
1933	31,243	2,682	8 6	28,561	91 4	27,261	87 3
1934	36,295	4,548	12 5	31,747	87 5	29,857	82 4
1935	35,738	3,736	10 5	32,002	89 5	30,187	84 5
1936	44,032	6,198	14 1	37,834	85 9	35,483	80 7
1937	53,121	9,361	17 6	43,760	82 4	40,666	76 7

(*Statistical Abstract for the British Empire*, 1926, 1935, 1937, 1938)

* Including bullion and coin

UNION OF SOUTH AFRICA: DIRECTION OF TRADE

IMPORTS

	Total	Foreign countries		British Empire		United Kingdom	
	£000	£000	Per cent	£000	Per cent.	£000	Per cent
1913	42,797*	13,865*	32 5	28,932*	67 5	23,860*	55 8
1921	58,201*	17,573*	30 1	40,628*	69 9	34,156*	58 7
1925	67,928	24,122	35 5	43,806	64 5	33,908	50 0
1927	72,845	29,752	40 8	43,093	59·2	33,121	45 4
1929	82,091	36,067	43 8	46,024	56 2	35,937	43 8
1930	63,357	26,675	42 2	36,682	57 8	29,735	46 8
1931	56,039	24,275	43 3	31,764	56 7	25,485	45 5
1932	44,754	19,052	42 6	25,702	57 3	20,712	46 3
1933	49,103	19,670	40 0	9,433	60 0	24,719	50 3
1934	66,198	27,417	41 4	38,781	58 6	32,301	48 8
1935	75,133	31,361	41 7	43,772	58 3	36,559	48 6
1936	86,214	38,222	41 3	47,992	55 7	39,934	46 3
1937	103,281	49,697	48 1	53,584	51 9	43,995	42 6

EXPORTS

	Total	Foreign countries		British Empire		United Kingdom	
1913	65,115*	3,973*	6 1	61,122*	93 9	58,830*	90 4
1921	57,960*	7,641*	13 1	50,319*	86 9	46,265*	79 8
1925	43,091	15,629	36 2	27,462	63 8	24,282	56 3
1927	45,609	17,881	39 2	27,728	60 8	23,860	52 4
1929	44,966	18,204	40 5	26,762	59 5	22,258	49 5
1930	30,772	12,361	40 2	18,411	59 8	14,741	48 0
1931	22,856	8,623	37 7	14,233	62 3	9,914	43 3
1932	24,596	10,363	42 1	14,233	57 9	10,360	42 1
1933	22,897	10,891	47 6	12,006	52 4	8,684	37 9
1934	23,013	10,121	44 0	12,892	56 0	9,457	41 0
1935	27,512	12,258	44 5	15,254	55 5	11,685	42 4
1936	27,592	12,948	46 9	14,644	53 1	11,337	41 2
1937	38,497	19,000	49 4	19,497	50 6	14,446	37 5

(*Statistical Abstract for the British Empire*, 1926, 1935, 1937, 1938.)

* Including bullion and coin

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